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The Honourable Speaker and
Members of the Legislative Assembly
of the Province of Prince Edward Island

In accordance with the requirements of the Audit Act, I have the honour of presenting my annual report to the 1991 Session of the Legislative Assembly.

Respectfully submitted,

J. Wayne Murphy, C.A.
Auditor General

Charlottetown
Prince Edward Island
February 8, 1991

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INTRODUCTION

GENERAL

Under Section 16 of the Audit Act, I am required to report annually to the Legislative Assembly. This report fulfills this requirement, and provides the members of the Legislative Assembly with the summary results of the work performed during the year.

There are many issues in this year's report requiring attention. In addition, feedback on our 1990 report recommendations on transfer payments, crown corporations, program evaluation, and accountability reporting, has been delayed due to the Government Reform Initiative. A concerted effort will be required by government this year to adequately deal with the concerns raised in this report as well as those that remain outstanding from our report last year.

BASIS OF REPORTING

The report deals mainly with matters pertaining to the 1989-90 fiscal year, but also contains some matters relevant to the current year.

Our emphasis is exception reporting and the report does not dwell on what is working well. This report is based on observations and recommendations made to departments and agencies of government selected for audit during the year.

It is important to note that the audit process itself has limitations, and it is not practical to attempt to audit all areas of government each year. However, good coverage is obtained on a cyclical basis.

The existence of a constructive relationship between my office and those we audit, together with this independent report to the Legislative Assembly, provides a good combination to promote what this office is trying to achieve - accountability and improved management of public funds.

SCOPE AND ACKNOWLEDGMENTS

The audit program this year covered financial statement audits of the Public Accounts of the Province, eight Crown corporations, four agencies, and seven special purpose funds. Special audits and examinations were performed on several department programs and government-wide activities. In all our audits, we have received good cooperation from Ministers, Deputy Ministers, Heads of Crown corporations and other government officials. I wish to acknowledge this cooperation and also the assistance provided by the Legislative Audit Committee in the administration of my office. Finally, I would like to express appreciation to my staff for their continued hard work and support.

MATTERS OF SPECIAL INTEREST

1. DEFICITS AND NET DEBT

INTRODUCTION

1.1 This section provides information on the Province's financial condition. The major elements describing the Province's financial condition include:

. **Operating Surplus/Deficit** - This is the difference between the revenues and expenditures required for the day to day operations of government such as medicare, education, and social services.

. **Capital Deficit** - This is the excess of capital expenditures over capital revenues required for projects such as road construction and buildings.

. **Total Deficit** - This is the total of the operating deficit and the capital deficit less the increase in the Sinking Fund.

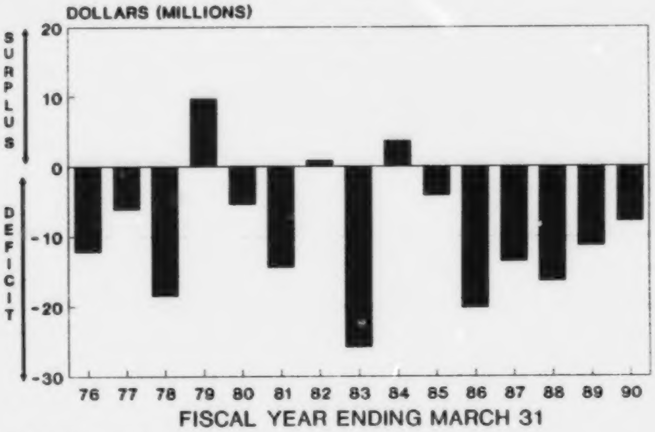
. **Sinking Fund** - This is a fund consisting of amounts set aside annually which are used to retire the debt of the Province as it matures.

. **Net Debt** - This is the amount the Province still owes after taking into account all its recorded assets and the Sinking Fund.

DEFICITS

1.2 In recent years the Province has incurred deficits. In 1989-90 the total deficit was $7.9 million which represents a 30 percent decline from the $11.3 million deficit in 1988-89. The deficits for the last 15 years are shown in **Exhibit 1.1.**

EXHIBIT 1.1
DEFICITS



NET OF SINKING FUND

NET DEBT

1.3 The Province's net debt at March 31, 1990 was $199 million. This does not include at least $246 million in unfunded pension liabilities. Net debt is a useful indicator of the Province's financial health because it represents what the Province has to set aside from future budgets to cover deficits already incurred. More to the point, it has been referred to as the IOU we will pass on to our children.

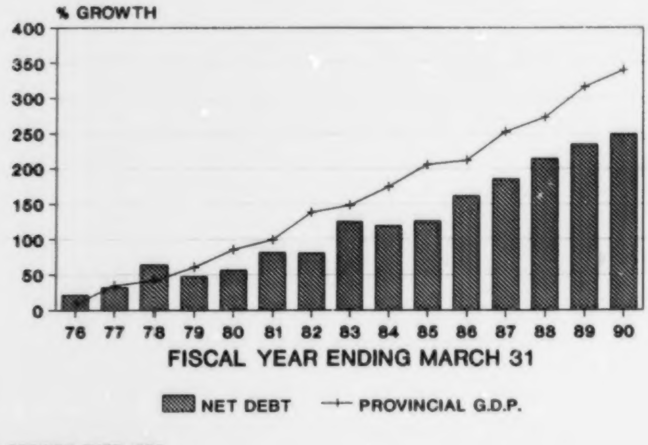
1.4 Over the last 15 years, the net debt has increased from $57 million to $199 million or 249 percent. On a per capita basis, the net debt has increased from $483 to $1,530.

1.5 The other Maritime Provinces have not fared any better. While PEI's per capita net debt in 1989-90 was $1,530, Nova Scotia and New Brunswick reported per capita net debt figures more than double that of PEI. These figures are not expected to improve in 1990-91.

1.6 One measure frequently used to indicate whether the level of net debt is appropriate is to compare it to the Provincial Gross Domestic Product (GDP). The GDP is the total value of goods and services produced in the Province and is used to measure economic growth. The higher the GDP, presumably the more debt the Province can maintain. This is similar to an individual, where the more they earn the larger the mortgage payment they can afford.

1.7 In the previous 15 years, the Province's GDP has increased from $424 million to $1,865 million or 340 percent. Net debt as a percentage of GDP has decreased from 13.5 percent to 10.6 percent over this period. It is difficult to say whether the current level of net debt is appropriate, however, the fact that it is growing at a slower rate than the GDP is a positive sign. The growth in net debt and GDP is indicated in **Exhibit 1.2**.

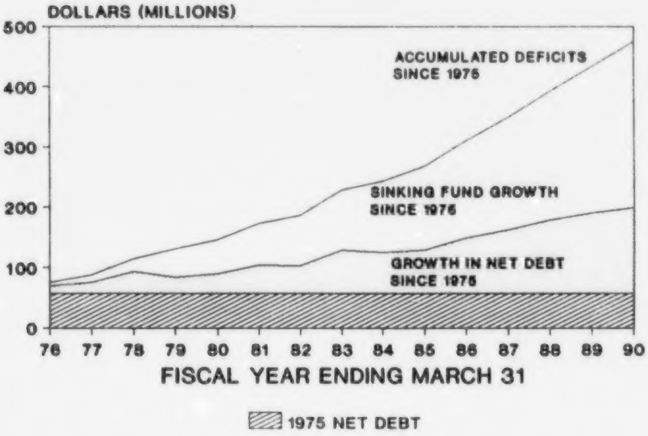
EXHIBIT 1.2
GROWTH IN NET DEBT AND GDP



% GROWTH OVER 1975

1.8 Over the past 15 years, provincial appropriations plus investment income totalling $261 million was set aside in the Sinking Fund to redeem this debt. This was prudent and substantial, however, a per capita contribution of $1530 would still be required to cover the net debt. **Exhibit 1.3** illustrates that even though the Sinking Fund is steadily increasing, the net debt continues to rise because deficits are being incurred.

EXHIBIT 1.3
GROWTH IN NET DEBT AND SINKING FUND



DEBT CHARGES

1.9 Debt charges are an expenditure over which the government has limited control. When government decides to spend more than it collects by incurring a deficit, it has to be financed with debt, which results in annual debt charges.

1.10 Debt charges include principal and interest payments to the Sinking Fund. Debt charges in 1989-90 increased to $87 million from $81 million in the previous year and continue to consume about 13 percent of the budget.

1.11 The impact of the debt charges is reduced by investment interest of $35 million and Sinking Fund interest of $23 million. Even after this interest is deducted, it is still costing the Province **$80,000 a day** to service the debt.

CONCLUSION

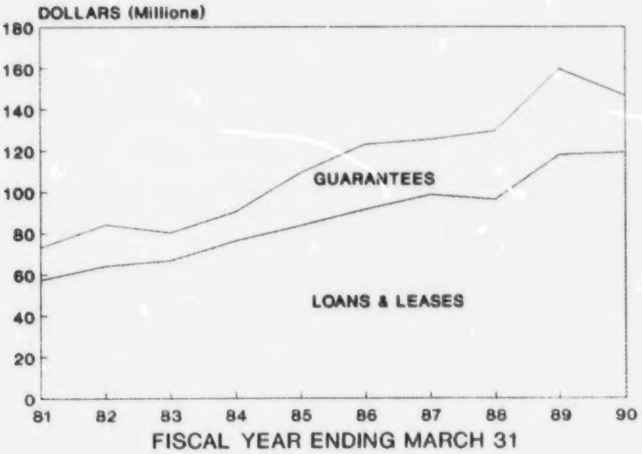
1.12 Increasing debt and the related interest cost illustrates the dilemma faced by legislators and government. Managing the deficit involves the difficult choices of increasing taxes or reducing expenditures. Either of these options are tough choices in a time of high unemployment and a sluggish economy. However, the unpleasant reality remains that deficits incurred now must be repaid with interest in future years, when it may be even more difficult to absorb the financial impact.

2. LOANS AND GUARANTEES

BACKGROUND

2.1 Provincial government loans and long-term leases amounted to over $119 million at March 31, 1990 and loan guarantees amounted to over $27 million at the same date. Government's exposure for the extension of credit through these debt instruments has doubled over the last ten years. See **Exhibit 2.1**

EXHIBIT 2.1
EXPOSURE OF GOVERNMENT



2.2 Financing provided by government to individual and corporate borrowers is delivered primarily through Treasury Board and four Crown Corporations; PEI Development Agency, PEI Lending Authority, PEI Agricultural Development Corporation, and PEI Housing Corporation.

2.3 Our work focused mainly on the Development Agency for a number of reasons. A detailed audit was performed on the Lending Authority in 1988 and followed up in 1989. The Housing Corporation and the Land Development Corporation (now part of the Agricultural Development Corporation) are audited annually by this office and the findings reported to the Legislature. Therefore, most of the observations from this examination pertain to the Development Agency.

RESULTS IN BRIEF

2.4 Lending and development activities need to be more clearly distinguished to improve accountability and administration.

2.5 The legislation governing lending activities is inconsistent and requires review.

2.6 Important lending policies are absent for some agencies and in need of improvement in others.

2.7 Improvements are required in the approval process and a more rigorous approach is needed in processing applications.

2.8 The monitoring of outstanding debt is receiving insufficient attention.

2.9 The reporting of significant information to monitor and manage lending activities needs to be improved.

2.10 Lending agencies recorded $35 million in bad debts in the last ten years.

2.11 Payments on loan guarantees amounted to over $13 million in the last two years.

AUDIT SCOPE

2.12 In accordance with section 13 of the Audit Act, we conducted an examination to assess the management practices in place over loans, long-term leases, and guarantees. We issued our report in January 1991.

PRINCIPAL FINDINGS

Economic Development Versus Lending Activities

2.13 Throughout our review, we were frequently confronted with the seemingly conflicting objectives of development and lending. The objective of development refers to job creation and improving the economy and often, out of necessity, involves high risk projects. A strict lending objective involves reducing risks and increasing the potential for loan repayment plus interest. Carrying out development objectives through the use of lending activities requires the acceptance by government of a higher risk than would otherwise be the case in a strict lending environment. However, limits have to be placed by government on the risks the various agencies are permitted to take in carrying out their lending activities.

2.14 This raises the question of when does the lending activity cease to be complementary to economic development and become part of it by being, in reality, a substitute for a subsidy or grant program. This is the crux of the problem and until a clearer distinction is made between these activities, accountability for the funds used will be difficult to establish.

2.15 We have been reporting for successive years on problems with Crown agencies involved with the lending of money. However, significant improvements have not come about. If government is going to come to grips with these problems, it must re-examine the current accountability frameworks in place for the lending of public funds.

Legislation, Mandate and Policies

2.16 Each Crown Corporation involved in lending is governed by a separate piece of legislation. This legislation, however, is not consistent on credit granting in all respects from one organization to another.

2.17 All of the Acts address eligibility and the terms and conditions of the loans but there is a significant difference between the Acts in the extent of detail included. Only one Act discusses procedures to be undertaken prior to loan approvals and only one Act specifically states at what level in the organization loan approvals may take place. There is no mention in any of the Acts of establishing an allowance for doubtful accounts, or collection procedures, and only the Financial Administration Act refers to the write-off of debt.

2.18 Each Corporation's mandate is provided for in its legislation. Only Lending Authority has as its primary objective the provision of financing. The others provide financing as a means of achieving other objectives specifically related to stimulating development of one kind or another.

2.19 Policies are approved documented methods of accomplishing an organization's goals. All organizations examined had documented policies regarding the purposes of lending, initial loan evaluations, terms and conditions of the loans, and approval levels. There are, however, differences in the level of detail provided in the policies by these organizations.

2.20 For example, three of the five organizations did not have detailed policies on monitoring of loans but instead stated that monitoring should be in line with the letter of offer.

Recommendations

2.21 Minimum standards for credit granting, monitoring, collections, and debt write-offs should be developed and included in the legislation for each credit granting organization.

2.22 Documented credit policies should be a requirement for all lenders and minimum standards for their content should be prepared.

Approvals

2.23 A rigorous approval process is an essential element in the management of credit. Once the decision has been made to assist a corporation or individual through credit, it is very difficult for any lender to end the relationship if financial problems arise. This is especially true for government. Again, we recognize some losses are inevitable due to government's riskier clientele, however, more needs to be done at the approval stage to minimize these losses.

2.24 We noted, from loan files examined at the Development Agency and at the Agricultural Development Corporation, a number of instances where clients had not clearly demonstrated the ability to repay prior to loan approval.

2.25 At the Agricultural Development Corporation most of the cases resulted from renewal of leases that were already in arrears and there was no new evidence to suggest a turn around for the operation. In one instance, the Corporation approved the sale of a leased property to a client whose lease account with the Corporation was $27,000 in arrears. The Corporation provided mortgage financing for that sale in 1985 and no payments were made until 1989. As of March 31, 1990 the mortgage was in arrears by over $90,000. The general manager advised that this method of re-financing leases in arrears has been discontinued.

2.26 At the Development Agency, two guarantees were made when the files indicated that the companies were in severe financial difficulty and there was no written plan provided to indicate how they were to improve operations.

2.27 We noted several instances at the Development Agency where assistance was approved but the approval was not supported by the assessment that was performed. For example, the Agency continued to assist one client for five months after it was determined that the corporation was no longer viable. The total write-off will amount to $3.6 million with $2.5 million of that risked during that five month period.

2.28 Documented guidelines and procedures do not exist to assist staff in their assessment of credit risk prior to approval. For example, guidelines have not been established by the agencies such as, acceptable debt levels and financial ratios by type of industry. Although an evaluation is always subjective to some extent, some benchmarks or standards are necessary to provide for some level of consistency and to ensure that all appropriate factors are considered for each application.

2.29 It was not always clear that certain key assertions made by clients had been verified. In one case, for example, key assumptions in a business plan were not verified even though sales were based on plant capacity rather than market analysis and contribution margins were based on labour efficiency improved by 20 percent over the previous owner.

2.30 In general, approval levels were established by policy for each agency we examined. We noted several cases where these approval levels were not followed. A normal approval process results in the issuance of a formal letter of offer to the client. We noted several cases where the letter of offer did not correspond in all respects to the conditions approved by the Board of Directors or Executive Council.

2.31 Communication with Executive Council on lending activities is not consistent. At Development Agency, for example, Executive Council approves loans over $500,000, whereas at Lending Authority and Agricultural Development Corporation, loans are not submitted to Executive Council for approval. The appropriate nature and extent of information required by Executive Council needs to be determined.

2.32 When a company experiences financial difficulty, the Development Agency occasionally will relax conditions attached to the loan. Documented analysis was not always available to support such decisions.

Recommendations

2.33 Documented guidelines should exist which establish benchmarks to be applied in the assessment of each credit application. The reasons for recommending approval to the Board of Directors should be stated.

2.34 Established policies should be followed. However, exceptions to policies when taken should be clearly documented and approved by the Board of Directors.

2.35 The letter of offer should not expand or restrict covenants approved by the Board of Directors or Executive Council.

2.36 Executive Council should be informed on a regular basis on the lending activities of Crown Corporations. The summary information to be reported to Executive Council should be clearly defined.

2.37 The easing of restrictions on loans should be supported by documented analysis and be approved through the same channels that approved the original financing.

Monitoring

2.38 In most cases, business failures or financial difficulties occur over a period of time and not overnight. Over this period of time there are usually signs of impending problems that should serve as a warning to government as a creditor.

2.39 Effective monitoring can assist government in recognizing changes to the conditions which existed at the time of loan approval and can reveal some of the early signs of financial difficulty. Communication is the key to recognizing these signs and timely written and verbal contacts as well as personal visits are the means to monitor client borrowers.

2.40 Again, some business failures and losses are unavoidable. However, effective monitoring provides for early identification and gives government more options in dealing with the situation in the best interests of both the client and the taxpayer.

2.41 In three out of the four agencies that we reviewed, there were no formal policies or procedures for the monitoring of loans and guarantees. Any reference to monitoring for these organizations simply stated that the monitoring would be consistent with the terms outlined in the individual letters of offer to the borrowers. Without an established policy, staff may not know what is expected of them, certain important monitoring procedures may be omitted, and the monitoring effort may be inconsistent from one loan to another.

2.42 Overall we found a number of instances where the monitoring performed by these agencies was either inadequate or inconsistent with the requirements of the letters of offer. Of particular concern was the lack of periodic financial information for individual clients. Timely financial information is a key component of the communications necessary for effective monitoring. For example, in one instance at the Development Agency, the borrower had a $7 million loan outstanding and was required by the letter of offer to submit monthly financial statements. We found that there was an eight month period where essential financial information was not received. The Agency placed reliance on an outside firm for this information, however, given the size of the loan the monitoring was clearly insufficient. Responsibility for monitoring rests with the Agency exclusive of any arrangements that may be made with others to assist in this function.

2.43 We also noted that in most cases the agencies examined did not require clients to submit annual audited financial statements for larger loans. It is important to ensure that the information provided by borrowers is accurate and reliable. Lenders cannot manage loan accounts based on misstated financial data since any analysis of this information for management purposes would be equally erroneous.

2.44 In the case of loan guarantees, the role of the private lending institution is an important factor in the monitoring process. The government as guarantor should be assured that these institutions have effectively monitored the loan and have exhausted their efforts to collect the loan before seeking a government pay out. During our examination we found a number of cases where the Province or the Development Agency was providing a 100 percent guarantee of the loan amount. In such cases the lending institution is assured of complete recovery of the loan funds and has little motivation to take effective loan management precautions and actions. It is important for the government to protect its own interest by carrying out some monitoring activity and obtaining information on the lending institution's practices, including their monitoring and collection efforts.

2.45 In two guarantees, the borrowers were not required to submit audited financial statements even though these guarantees combined exceeded $1.7 million. We also noted one situation where interim financial statements provided in support of a large guarantee were inaccurate. This went unnoticed until the year end of the company.

Recommendations

2.46 Certain minimum monitoring requirements should be documented as policy. All monitoring, required by the letter of offer and policies, should be carried out.

2.47 Audited financial statements should be required in support of the larger loans and guarantees.

2.48 Government and its agencies should ensure that lending institutions are adequately performing the functions of monitoring and collecting guaranteed loans.

Reporting

2.49 Timely and accurate reporting of relevant information to management, the Board of Directors, and government is essential for the effective management of lending activities.

2.50 Reporting of information on delinquent accounts is inadequate at some of the Crown agencies examined. For example the Agricultural Development Corporation presents to its Board of Directors a listing of high risk accounts and those considered to be a problem rather than presenting a complete list of all accounts in arrears. The Lending Authority provides a complete listing of delinquent accounts to the Board of Directors on a quarterly basis only. The Development Agency Board only receives information on those arrears accounts brought to their attention by the Finance Committee, which is a sub-committee of the Board. In our opinion, the large dollar value of delinquent accounts along with the millions of dollars written off annually as bad debts, points to the need for more involvement by the Board of Directors.

2.51 We found that two of the agencies examined classify all of their re-financed loans as current, and as a result they are removed from any arrears or delinquent accounts reports. Furthermore, these loans are not highlighted in any way and the potential for uncollectibility as a result of past non-payments on these loans is not disclosed.

2.52 We found a few instances where documentation provided to the Agency's Board and Executive Council was, in our opinion, incomplete. For example, a memo to Executive Council in support of a $1.2 million loan stated the dollars were needed for capital cost overruns on a project, whereas the information in the files indicated the cash was needed for working capital due to operating losses experienced by the client. We were advised by Agency staff that, in their view, the two items were related and verbal explanations were provided when the information was presented to Executive Council.

Recommendations

2.53 Information on all delinquent accounts should be reported to the Board of Directors monthly.

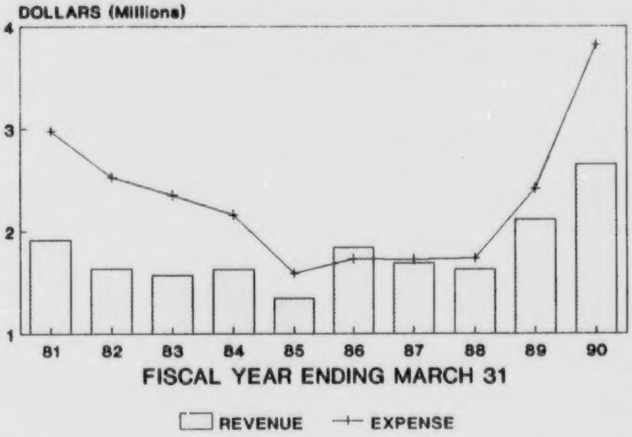
2.54 All re-financed loans should be clearly identified on all loan status and arrears reports.

Interest

2.55 When setting loan interest rates, each agency examined uses a similar method. The rate at which these agencies receive monetary advances from the Province is used and a premium is added to it. We found that the premium is not consistent for all agencies resulting in some differences in their lending rates.

2.56 The premium established is insufficient to generate enough revenue to cover these agencies' operating costs. In fact, loan interest revenue does not always cover the interest costs incurred to obtain the necessary funds. **Exhibit 2.2** illustrates this point for the Development Agency.

EXHIBIT 2.2
INTEREST REVENUE AND EXPENSE
Development Agency



2.57 For the most part this interest revenue deficiency is due to the number of loans which become uncollectible. However, we did note other factors which also contribute to the shortfall.

2.58 The Agency accrues interest on loans in accordance with the repayment schedules originally drawn up rather than accruing based on the outstanding loan balance. When regular payments anticipated in the repayment schedule are not received the Agency records less interest revenue than actually due.

2.59 In certain instances, the Agency was willing to convert the debt of a client into preferred shares in order to reduce debt loads and interest payments of these clients. In addition to carrying a low dividend rate, some shares do not pay a dividend unless the company makes a profit, and others are non-cumulative meaning that the company is not obligated in the future to pay for past unpaid dividends. Such conditions mean that the Agency receives little or no return on money advanced.

2.60 Preferred shares used in this manner, are an innovative financing strategy that attempts to alleviate the financial difficulty of these clients and the loan arrears situation they would otherwise be in. Criteria have not been documented, indicating when this practice is to be used. Thus, we were unable to determine why preferred share conversions were carried out in some instances and not in others.

2.61 In one case for example, government acquired a company for $2.5 million and subsequently transferred it to the Development Agency. Control of the company was then conveyed to a group of producers. According to the Agency, the newly formed company could not support the debt load created as a result of the original purchase price and, therefore, a $1 million loan guarantee was paid out and the Agency converted $1.5 million of debt into preferred shares.

Recommendations

2.62 The method for establishing lending rates should be reviewed for all agencies.

2.63 Interest revenue for individual loans should be recorded based on the principal balance outstanding over the period.

2.64 The practice of converting loans and investing in preferred shares should be reassessed.

Security

2.65 Loan security is a type of insurance that the lender holds in case the borrower fails to carry through on the promise to repay loans. Security usually takes the form of a legal right to specified assets of the borrower.

2.66 During our examination, we noted that all of the security requirements contemplated in the letter of offer were not always in place prior to the disbursement of funds. Disbursing funds prior to obtaining all of the security results in the lender taking on more risk than was anticipated and approved by the Board or Executive Council.

2.67 From our examination of loan guarantees, we found that in some cases the security was not adequate to cover the guarantees paid out. The Agency has at times sought personal guarantees from the principal business owners without first determining whether those persons had the ability to honour the guarantees if called upon. We were advised by the Agency that in a number of cases when they attempted to collect on those personal guarantees they found them to be worthless or worth substantially less than originally agreed upon.

2.68 We recognize that personal guarantees in high risk loan situations are normally obtained in any event. To be effective, however, their value should be verified and they should be collected when necessary.

Recommendations

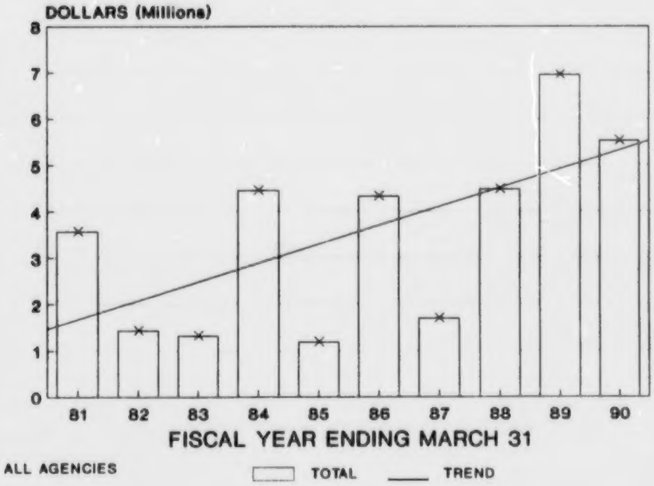
2.69 All security required by the letter of offer should be in place prior to the disbursement of funds.

2.70 Security should be obtained for loan guarantees made by government or its agencies and it should be verified to ensure it has value and is enforceable.

Collections

2.71 Over the past ten years the four agencies we examined recorded $35 million in bad debts. The bad debt expense for the last three years alone exceeded $16 million. Bad debts are the amounts expensed for probable losses on loans outstanding. **Exhibit 2.3** illustrates the level of bad debt expense along with the growth trend.

EXHIBIT 2.3
BAD DEBT EXPENSE



2.72 The collection policies and practices employed by government play an important role in the ultimate collectibility of loans, and hence the level of bad debts experienced. Without collection policies and a clear assignment of responsibilities, there is not sufficient incentive for employees to give the activity the emphasis it deserves.

2.73 We found that documented collection policies did not exist at the Development Agency and the collection policy was not always followed at the Agricultural Development Corporation. We were advised a collection policy has been prepared since our audit of the Development Agency.

2.74 Some of the files examined did not document the collection activity under taken. In some cases this might be a matter of not documenting various meetings and discussions with the client, while in other cases there was no evidence the collection activity occurred. In the event of legal action, documentation of the collection efforts made is essential.

Recommendations

2.75 Collection policies should be in place suitable to each lending agency.

2.76 All collection activity on an account should be documented.

Loan Write-Offs

2.77 Actual loan write-offs over the past ten years exceeded $26 million. These are loans where collection efforts have been exhausted.

2.78 We found that the write-off of debts has not been handled on a consistent basis by government and its agencies. For example, Provincial loans are governed by legislation which outlines circumstances and procedures for write-off including the need for Executive Council authorization. The legislation for each of the four Crown agencies does not address write-offs, and not all of these agencies have a documented policy on this matter. In practice the Development Agency refers all write-offs for Executive Council approval while the other three agencies simply refer write-offs to their respective Board for authorization.

Recommendation

2.79 A consistent policy should be established for the approval of loan write-offs.

Guarantees

2.80 Loan guarantees are an instrument where government or its agencies guarantee the repayment of a loan by a borrower to a private lending institution. Over the past five years there have been wide fluctuations in the value of outstanding guarantees made by government. They totalled $41.6 million at March 31, 1989 and decreased to $27.5 million at March 31, 1990. Pay outs of over $13 million pertaining to loan guarantees were made during the last two years, $8.2 million of which related to a guarantee for the PEI Hog Commodity Marketing Board.

2.81 We found that at least $4.9 million or 75 percent of the Development Agency guarantee pay outs over the past five years related to guarantees in support of working capital loans. Working capital loans are much riskier than loans for fixed assets, since normally inventory and accounts receivable are pledged as security for these loans. Working capital loan guarantees must be monitored more closely than other loans to ensure that the value of the security is maintained throughout the guarantee period and to ensure there is no rapid deterioration in a company's financial position. Larger losses are experienced on working capital loans due to the ultimate limited value of security held in support of those loans.

2.82 As part of the Province's guarantee policy, a one percent administration fee is charged to borrowers on the guaranteed amount. We found that the Development Agency calculates this fee based on the month-end balance of the guaranteed loan rather than on the maximum approved amount as done by the Province. As a result, the Agency fee is lower in most cases. We also found that the Agency has waived the administration fee in a couple of instances. In one case, the estimated value of fees waived on behalf of the client was $46,000.

Recommendation

2.83 Direction should be provided to lending agencies on the charging of administration fees for loan guarantees.

CONCLUSION

2.84 When a lender makes a commitment to assist a client, it is very difficult to end the relationship when financial difficulties arise. This is especially true where government is the lender and the jobs of individuals are at stake. In the final analysis, it is a subjective judgement by the Board of Directors or Government as to when this difficult choice must be made.

2.85 We did not attempt during our review to evaluate when or if decisions to provide financing assistance should have been made. However, we did identify a number of weaknesses in government lending activities. These issues must be dealt with to focus greater attention on the accountability for the funds used in lending activities.

MANAGEMENT RESPONSE

2.86 The Development Agency is taking action to deal with the issues identified in our report.

2.87 Government recognizes there are problems with existing lending practices. Some of the issues raised in our audit report will be dealt with as part of the Government Reform Committee's review of lending across government.

3. CABINET COMMITTEE ON GOVERNMENT REFORM

INTRODUCTION

3.1 The Cabinet Committee on Government Reform was established in August 1990 consisting of the Premier, who is Chairman, Honourable Robert Morrissey, and Honourable Wayne Cheverie. The reform initiative is designed to consider the role of government in the 1990s, and its terms of reference include:

- examination of the organizational structure of government with a view to improving efficiency and productivity;
- identification and reinforcement of programs whose objective is wealth creation;
- examination of relationships with Boards and Commissions to ensure that accountability and responsibility are clearly defined; and
- a review of programs to ensure that services delivered are relevant and will meet future needs.

RELEVANCE TO AUDIT FUNCTION

3.2 The mandate of the Auditor General includes matters affecting the economy, efficiency, and effectiveness of government. Our office performs annual as well as cyclical audits and examinations on departments, programs, and Crown agencies across government. The Committee's terms of reference identify a number of topics that relate to issues covered in our audits.

3.3 We have provided the Committee with summary information on some of the more important issues that need to be dealt with including transfer payments, control of Crown corporations, program evaluation, and accountability reporting. We have also referred the Committee to recent annual reports, containing other matters requiring attention, as a result of government-wide examinations and audits performed on departments and agencies. I am encouraged that these issues will receive the attention of the Committee and am hopeful the results will contribute to improved accountability.

EFFECTIVENESS IN THE PUBLIC SECTOR

3.4 One specific area the Committee is delving into is the subject of effectiveness. Committee staff requested information from my office on the subject of effectiveness and we provided input to assist them with this difficult topic.

3.5 The whole area of effectiveness has been the subject of a study by the Canadian Comprehensive Auditing Foundation (CCAF). The Foundation is a national body created to help strengthen management, accountability, and audit in the public sector. The Foundation has been working since 1987 to foster acceptance of the study's effectiveness framework in the public sector.

3.6 There is growing awareness by all governments of the importance of demonstrating their accountability for the expenditure of public funds.

Several provincial governments are considering the framework outlined in the study and one provincial government is in the implementation stage.

WHAT DOES EFFECTIVENESS MEAN?

3.7 The CCAF study determined that in practice there is no overall agreement on what the term effectiveness means. How effectiveness is understood seems to depend largely on who is looking for it. For example, a constituent's view of the effectiveness of a service may differ considerably from the operating department providing it. Each view may have validity for the person holding it, and this diversity of opinion affects government's role in program delivery.

3.8 The study found that effectiveness is not a single indivisible concept. On the contrary, it contains subjective, value laden components that change with time and with viewpoint. To form judgements on the effectiveness of programs, government often has to weigh multiple, competing, and sometimes contradictory objectives and measures.

3.9 Without some framework to assess effectiveness, that provides a common basis for government, the bureaucracy, the Legislature, and ultimately the taxpayer, the government will remain hampered in its attempts to demonstrate the effectiveness of government programs.

THE PRACTICAL IMPLICATIONS

3.10 Any proposed framework for reporting on effectiveness will result in failure unless it has the support of those responsible for compiling and aggregating the information to be reported.

3.11 The Government Reform Initiative is an opportunity to develop an approach to report on effectiveness that will work in the Prince Edward Island public sector environment. All sectors must be held accountable and a framework for reporting on their effectiveness is required. The challenge will be to develop a practical framework for reporting, suitable to the needs of the Legislature and government departments and agencies.

3.12 The cornerstone of any reporting framework will have to be flexibility. The time has passed for blanket policies issued from central agencies without regard for the size and program environments of departments and Crown agencies. Senior officials and their staff cannot function effectively and will not support any framework that does not provide flexibility.

3.13 This does not mean that consistency in objectives and approach cannot be developed within the reporting framework. Without some benchmarks to provide a common basis for implementing the framework and communicating results, confusion and meaningless reporting will result.

AN EFFECTIVENESS FRAMEWORK

3.14 The focus for any proposed framework must be on the results and not on the methodology. When this is recognized departments and agencies can concentrate on meeting the requirements of the framework in their own way.

3.15 The CCAF recognized the requirement for flexibility and, at the same time, the need to obtain meaningful information on effectiveness. The framework contained in the study distilled effectiveness into a number of attributes that provide a reasonable basis for understanding and could be identified in practice. The idea being that an organization could provide meaningful information on these attributes, which taken together, would provide a basis for a balanced judgement on overall effectiveness. Following are the 12 attributes of effectiveness and a **summary** explanation of each as contained in the CCAF publication on effectiveness.

- **Relevance:** The extent to which a program or organization continues to make sense in regard to the problems or conditions to which it is intended to respond.
- **Appropriateness:** The extent to which the design of a program or its major components and the level of effort being made, are logical in light of the specific objectives to be achieved.
- **Achievement of Intended Results:** The extent to which goals and objectives have been realized.
- **Acceptance:** The extent to which the constituencies or clients for whom a program is designed judge it to be satisfactory.
- **Secondary Impacts:** The extent to which other significant consequences, either intended or unintended and either positive or negative, have occurred.
- **Responsiveness:** An organization's ability to adapt to changes in such factors as markets, competition, available funding or technology.
- **Management Direction:** The extent to which the objectives of an organization and its component programs are clear, well-integrated and understood, and appropriately reflected in the organization's plans, structure, delegations of authority, and decision-making processes.
- **Monitoring and Reporting:** The extent to which key matters pertaining to performance and organizational strength are identified, reported, and carefully monitored.
- **Costs and Productivity:** The relationships among costs, inputs, and outputs.
- **Financial Results:** The matching of, and the accounting for, revenues and costs and the accounting for and valuation of assets, liabilities and equity.

- **Working Environment:** The extent to which the organization provides an appropriate work atmosphere for its employees, provides appropriate opportunities for development and achievement, and promotes commitment, initiative and safety.

- **Protection of Assets:** The extent to which important assets - such as sources of supply, valuable property, key personnel, agreements, and important records or information - are safeguarded so that the organization is protected from the danger of losses that could threaten its success, credibility and continuity.

3.16 It is obvious when reporting on these attributes that different departments and programs will assign greater emphasis to certain attributes than others. However, they are applicable to some degree to all organizations.

CONCLUSION

3.17 The Government Reform Initiative provides the opportunity to firmly establish a framework for probing and reporting on the effectiveness of government's programs. To gain acceptance, this initiative must be seen to have a reasonable chance of succeeding and the involvement of departments and agencies will be a key ingredient.

3.18 If action is taken now, government's ability to provide effective services to the public and maintain appropriate accountability over public resources will be enhanced.

4. PUBLIC ACCOUNTS COMMITTEE

ROLE AND MANDATE

4.1 This Committee continues to fulfil an important role in the accountability process. Its function is to provide a forum in which members of the Committee, as members of the Legislative Assembly, are given the opportunity to hold the administration accountable.

4.2 The Committee in our Province, like most others, has evolved mainly from past practices and tradition and the duties of the Committee are not laid down by statute.

4.3 The mandate of the Committee is primarily the review of the Auditor General's Report subsequent to its tabling in the Legislative Assembly.

PROCEEDINGS AND RESULTS

4.4 The Committee holds public meetings and requests the Auditor General and government officials to appear and answer questions on matters raised in the Auditor General's Report. Because of time limitations, the Committee usually has time to deal with only one or two topics in depth.

4.5 Last year, the Committee placed most of its emphasis on our report of Highway Construction. I, along with others, provided input to the Committee in response to questions raised during several meetings dealing with this subject.

4.6 As required by the Committee, I have included a follow-up report on the action taken by the Department of Transportation and Public Works this year. The Committee gave this matter a thorough examination and prepared a comprehensive report to the Legislative Assembly containing many recommendations for improving the effective administration of the highway construction program.

CONCLUSION

4.7 Positive results are being achieved by the Public Accounts Committee. In my view, the Committee has made good progress in the last few years under the direction of the Chairman and Vice-Chairman, and is making an important contribution to the accountability process and improved government administration.

REPORTS ON SPECIAL AUDITS
AND EXAMINATIONS

5. INTRODUCTION TO SPECIAL AUDITS AND EXAMINATIONS

5.1 Section 13(2) of the Audit Act establishes my mandate for special audits and examinations of departments and agencies of the Crown.

5.2 To perform these audits, we employ a broadly based auditing approach aimed at systematically reviewing and reporting on accountability relationships and on the supporting activities, systems, and controls employed by management in fulfilling its responsibilities. The purpose of the audits is to examine each entity or program, report our findings, and make recommendations where appropriate.

5.3 Section 16 of the Audit Act requires me to call attention to any matters I consider necessary to be brought to the attention of the Legislative Assembly. Accordingly, I present the significant findings and recommendations in the sections following this introduction.

6. HIGHWAY CONSTRUCTION FOLLOW-UP

INTRODUCTION

6.1 Last year a number of observations and recommendations were made on highway construction in our report to the Legislative Assembly.

6.2 The report was the subject of extensive discussion at meetings of the Public Accounts Committee where the Auditor General, officials from the Department of Transportation and Public Works, and representatives from the PEI Roadbuilders Association provided input.

6.3 After considering the Auditor General's Report and the input received at several meetings, the Public Accounts Committee presented a detailed report with recommendations which were adopted by the Legislative Assembly.

6.4 The Committee requested the Auditor General to follow up on his 1990 report and the Department to respond to the recommendations made by the Auditor General and the Public Accounts Committee.

GENERAL ASSESSMENT

6.5 A large number of observations and recommendations were made in our report last year. The high priority given this subject by the Public Accounts Committee and the Legislative Assembly has achieved results. This process has highlighted the need for more communication and cooperation between the Department and road building contractors. This will be a key ingredient in solving many of the issues raised and appears to be progressing in a positive way.

6.6 Some of the problems mentioned in our report such as compliance with specifications cannot be dealt with overnight. However, these items must be addressed if highways are to be constructed in a cost-effective manner.

6.7 We would like to acknowledge the cooperation of the Deputy Minister and his staff in providing the information necessary to bring the Legislative Assembly up to date as requested by the Public Accounts Committee.

CURRENT STATUS

6.8 Following are recommendations from the 1990 report and the status of each.

	Recommendation	Department Comment
Strategic Planning	Executive Council should be provided with more information to make the cost-benefit decisions necessary to preserve the Provincial highway system at an appropriate level. This would include current condition of the highway system, alternatives for improving the system, and the cost of each.	As the Pavement Management System has developed, the level of information available to engineers and elected officials has grown in quantity and improved in quality. Elected officials have been provided with information on the current and projected condition of each segment of the highway network, and more recently, detailed information on rehabilitation alternatives and costs has become available. The information is now utilized in aggregated form in the Department's Strategic Overview documents.

Our Comment

The Department has made an important first step in providing more effective information for decision making. A comprehensive, multi-year plan to address the deficiencies identified is planned as the next step in improving the planning process.

Pavement Management System	The Pavement Management System output should be the primary source of information for determining highway construction and maintenance priorities.	The Department has consistently maintained that the PMS must be the basis of the annual rehabilitation program. A large investment has been made in the system and its ability to support an objective decision-making process is well understood.

Our Comment

The Department has addressed our recommendations, however, the role of the MLA was not referred to specifically. Although it is difficult to establish where the MLA involvement begins and stops, the Department should continue to recognize the input of the MLA as one element of the planning process as recommended by the Standing Committee on Public Accounts.

	Recommendation	**Department Comment**
	The final phase of the Pavement Management System, which will prioritize reconstruction on a provincial basis should be implemented as soon as possible.	The Department has encountered considerable difficulty in implementation of the final element of the network level Pavement Management System. The consultant, which had provided excellent service to the Department encountered a number of technical and administrative problems during the development of the prioritization and optimization modules. These problems have finally been resolved and the module is now scheduled for implementation and testing in January 1991.
Our Comment	We will follow up on the Department's comments and are hopeful the full benefits of the Pavement Management System will be realized.	
	Data collection for the Pavement Management System should be scheduled, include all roads, and be done in a planned and timely manner.	A number of steps have been taken to improve management of the data collection activity. These steps have increased the quality of data received at head office as well as the productivity of field staff.
Our Comment	The course of action described by the Department addresses the recommendation.	
Quality Control	Department engineers should ensure that highway construction contract specifications are met before final payments are made.	The Department consulted with the road builders and agreed to less direct involvement in their operations. This has not resulted in the required improvement in compliance with specifications and alternative methods will be explored to improve this situation.
Our Comment	We recognize this matter is posing problems for both the Department and the contractors and we were informed that cooperative efforts to address the problems are planned. Progress in this area is key to improved quality and cost effective highway construction. We will continue to follow up on the progress being made.	

	Recommendation	**Department Comment**
	The hiring, training, and supervision of field staff should be improved to ensure adequate inspections are performed and non-compliance with specifications is reported.	The Department has strengthened the professional staff with the hiring of three Engineer II's. Two to be employed as project engineers and one as operational head of the Summerside Soils and Materials Lab. The requirement for qualified and trained grade inspectors has not been met. The Department has not been able to create these positions to date but has developed the desirable qualification and position requirements.
Our Comment	While improvements have been made in the professional staff assigned to projects, the Department's full-time representatives on highway construction projects need to be qualified and trained.	
Tendering	The Department should develop and document a formal policy setting out rules and procedures to govern the awarding of highway construction contracts.	The Department is in the process of developing a policy, for the Minister's consideration, setting out guidelines to govern the awarding of highway construction projects.
Our comment	We recognize the difficulty in developing a tendering policy that is both cost effective and fair. The Department is making an effort to deal with the recommendation and we will follow up on the progress made this year.	
Materials Control	Departmental staff should ensure that all materials tickets are accurately completed, authorized, and controlled. Final materials totals should be verified before final payments are made to contractors.	The Material Information System has been further developed to assure that payment for materials cannot be made without verification by the system. In addition, steps have been taken to improve the control over tickets.
Our Comment	We are satisfied that the course of action described by the Department will deal with our concerns.	

	Recommendation	Department Comment
Contract Changes	The Department should ensure that contract overruns and changes are documented and approved in compliance with Department procedures.	The Department will conduct a review of the contract's special provisions. The provisions will be changed if necessary to comply with the present practice.
Our Comment	When the Department completes the review of the contract's special provisions and makes the necessary changes, we will perform a follow-up.	
Project Costing	The Department should ensure that financial reports are prepared accurately and are properly reviewed.	This recommendation requires the involvement of the Department's financial control system with our Financial Information System. The Department intends to review these needs and work them into the Financial Information System.
Our Comment	When the Department completes its review of information needs and makes the appropriate adjustments, we will follow up on our recommendation.	
Holdbacks	The Department guidelines for the payment of holdbacks should be followed.	This item will be reviewed and the section in the special provisions that pertains to this item will be revised.
Our Comment	The revised system for holding back payments will be examined to determine if the Department's interests are adequately protected.	
Work Schedules	The system for scheduling work and charging contractors for delays should be reviewed.	This question is presently under review.
Our comment	We will follow up on the specific action taken by the Department.	

CONCLUSION

6.9 We are satisfied that some progress has been made to correct the deficiencies noted during our audit, however, much remains to be done before the Department can be assured that the best use is made of the Province's highway construction expenditures.

7. MEDICAL SERVICES

BACKGROUND

7.1 The Hospital and Health Services Commission pays for basic health services provided by a physician. During 1989-90 the Commission paid $25 million for In-Province physician fees and $2.5 million for Out-of-Province physician fees. Payments to the individual physicians are based on a fee per service basis as established in a fee schedule negotiated with the Medical Society of Prince Edward Island.

7.2 The Commission operates in a complex environment where the interests of a number of participants must be coordinated to ensure medical services are provided to the population.

7.3 The participants include: the Minister of Health and Social Services, who coordinates measures for the protection of public health and the distribution, supervision, and evaluation of health services; the Hospital and Health Services Commission which is responsible for the management of the health care sector; the physicians who provide the medical services; and the hospitals which provide acute institutional care.

7.4 Medical services payments made by the Commission are substantial, totalling more than $27 million. The Commission has taken some important steps to provide for the effective delivery of health services to the residents of Prince Edward Island. However, we have identified a number of issues requiring immediate attention if these payments are to be administered properly and the service requirements of the system delivered effectively.

RESULTS IN BRIEF

7.5 Medical expenditures are growing more quickly than either provincial expenditures or the population. The per capita cost of medical services has increased from $89 to $211 over the last ten years.

7.6 The demand for medical services increased 41 percent in the last ten years even though the population only increased 6 percent.

7.7 The Commission is working on a large number of issues which need to be addressed to ensure medical services are provided effectively. These items need to be ranked, coordinated, and documented in a plan to ensure they are addressed in an orderly way.

7.8 The resident registration file cannot always be relied upon to provide accurate information on eligibility for coverage.

7.9 Assessment rules and procedures, used in assessing claims, need to be more clearly defined and documented.

7.10 The deficiencies in the confirmation process render it ineffective in verifying medical services claims.

7.11 A separate internal audit function is necessary to improve control over medical claim payments.

7.12 The population per physician on Prince Edward Island is higher than most other provinces.

7.13 The Commission is participating in a process to identify physician requirements.

7.14 The Commission does not have an adequate management information system to analyze and monitor physicians' practices or patient utilization patterns.

AUDIT SCOPE

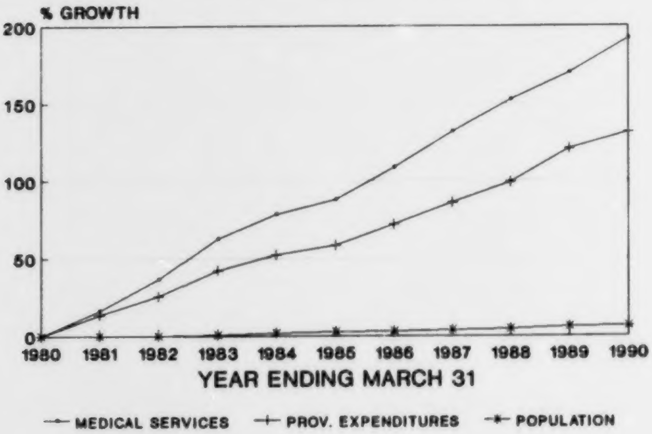
7.15 In accordance with section 13 of the Audit Act, an examination was performed to assess the controls and management practices in place to ensure that medical services expenditures of the Hospital and Health Services Commission are made with due regard for economy, efficiency and effectiveness. Our report to the Commission was issued in November 1990.

PRINCIPAL FINDINGS

Expenditure and Service Trends

7.16 Medical Services expenditures are growing more quickly than either provincial expenditures or the population. As can be seen in **Exhibit 7.1** medical services expenditures have increased by 192 percent over the last 10 years while provincial expenditures have increased by 131 percent.

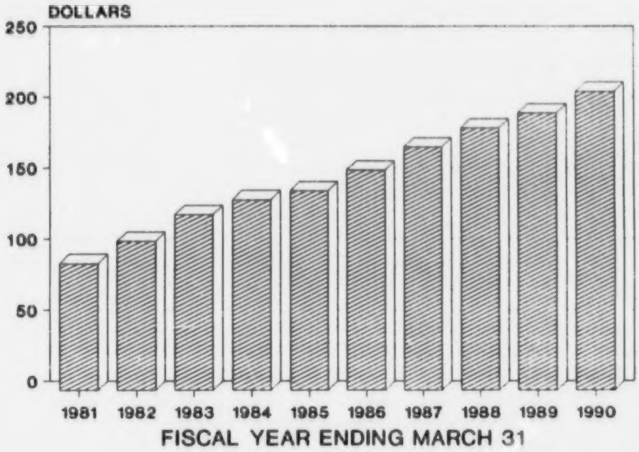
EXHIBIT 7.1
MEDICAL SERVICES
GROWTH COMPARISON



7.17 Inflation is responsible for 125 percent of the increase in medical services expenditures, however, even when the expenditures are adjusted for inflation, there has been a 67 percent increase since 1980. A large part of the increase relates to a 41 percent rise in the number of services over the same period while the population has increased by only 6 percent.

7.18 As illustrated in **Exhibit 7.2**, the per capita cost of medical services has increased from $89 to $211 over the last ten years. Data obtained from "The Report of the Nova Scotia Royal Commission on Health Care" indicates that PEI's per capita cost of $171 in 1987 was less than the national average of $262 and the Nova Scotia per capita cost of $201.

EXHIBIT 7.2
MEDICAL SERVICES
PEI PER CAPITA COST



Planning

7.19 An area that is receiving increasing attention in the health care community across Canada is the measurement of the general health of the population. It is important to determine whether the population is in fact healthier as a result of increasing government expenditures. Development of health care indicators would assist the Commission in determining whether the health care dollar is expended in the most effective manner.

7.20 In 1987 the Hospital and Health Services Commission produced a document entitled, "New Directions for Management of the Health Care System". This document identified the need to move the Commission from administrators of the medical and hospital insurance plans to managers of the health care system.

7.21 The Commission has developed a strategic planning process to identify the critical issues in the provision of health care and the activities required to address them. As a result of this process a large number of issues were identified and studies conducted in the areas of: medical personnel; emergency services; nursing and nursing education; geriatrics; nutrition and dietetic needs; french language services; out-of-province services; and hospitals. While the issues have been identified, the cost to implement most of them has not been determined. The Commission is currently in the process of ranking the issues to ensure they are addressed in an orderly fashion.

7.22 Once the issues are ranked, the ones to be addressed in the next year need to be identified and included in an operational plan. The plan could include the objectives of each activity, what specific targets should be accomplished, and a framework for evaluating the plan. It would also provide the basis for allocating human and financial resources.

Recommendation

7.23 The actions required to implement the approved initiatives arising out of the various studies should be costed, ranked, and documented in an overall plan for implementation by the Commission. From this document an annual operational plan should be prepared which includes targets to be accomplished and activities to be undertaken for each initiative.

Patient Eligibility

7.24 The resident registration master file contains basic personal information about all persons registered for health care insurance on PEI. This file is the key to the Commission's procedures for checking a person's eligibility for coverage. Following are some of the problems noted:

- The file contains over 187,000 records yet the province only has a population of about 130,000.
- The file contains in excess of 6,400 eligible residents over the age of 80, while Statistics Canada indicates the number should be about 4,000.
- The file contains over 12,000 persons who are listed as eligible but have not used medical services in five years.
- In addition, a number of duplicate registrations, non-residents, and incorrect addresses were on the file.

7.25 Previous audit reports and the Commission's own internal reviews recommended the problems with this file be corrected. A tentative time schedule for addressing the issues raised has been set by the Health Information Steering Committee.

7.26 Most claims for medical services are checked for patient eligibility by computer routine. We found that claims for radiology services were not processed by the computer system. Patient information was not required on the claim, therefore patient eligibility could not be verified.

7.27 Island residents who receive medical services in most other Canadian Provinces have their medical bills paid by that Province, who in turn bills the Hospital and Health Services Commission. The Commission found it paid over $30,000 for persons not registered or ineligible for PEI coverage. In some cases the Commission was billed repeatedly for services rendered to the same ineligible patients. Other claims could also be paid when an Island resident takes up residence in another Province without registering in that Province.

Recommendations

7.28 The integrity of the data on the resident registration file should be restored.

7.29 The Commission should ensure that patient information is included on all claims so they can be checked for eligibility.

7.30 The Commission should inform other provinces when claims for ineligible persons are billed to PEI.

7.31 The Commission should purge the resident registration file of duplicate, obsolete and inactive records.

Assessment Procedures

7.32 The Commission performs assessment procedures on all claims from physicians, to ensure the claim is in accordance with the Preamble and Tariff of Fees, and unusual practices are noted for follow up by the Medical Director.

7.33 Claims are subjected to computerized assessment rules and are either accepted, adjusted, or forwarded for manual assessment. We noted the rules were incomplete for detecting certain utilization practices and the rule requiring a referral before payment for consultation services was routinely overridden.

7.34 The procedures for manually assessing claims are not documented which could result in inconsistent assessment of claims depending on the interpretation of the procedure by each assessor. This increases the risk that important items may not be reported to the Medical Director.

7.35 There are no summaries prepared on the results of the assessment procedures. Summaries would provide information to the Medical Director to follow up on any misinterpretation or misapplication of rules.

Recommendations

7.36 Assessment rules should be continuously reviewed and updated to ensure claims are monitored for adherence to the Preamble and Tariff of Fees for Insured Services.

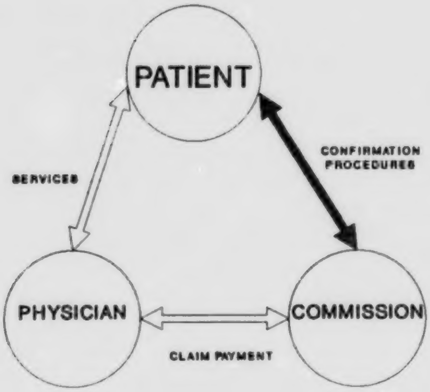
7.37 Procedures for staff assessors should be clearly documented to indicate the appropriate actions when deficient, questionable, or unusual claims are encountered.

7.38 **Summary reports of the results of assessment routines should be provided for each assessment rule.**

Confirmations

7.39 Payments for medical services present an unusual accountability arrangement because the patient benefiting from a service does not see the resulting invoice and the organization paying the bill receives no direct benefit from the service it is paying for. The current relationship between the patient, physician and the Commission is shown in **Exhibit 7.3.**

EXHIBIT 7.3
MEDICAL SERVICES



7.40 The confirmation system is the link between the patient and the Commission. Confirmations allow the Commission to communicate directly with the patient to confirm the services billed to the Commission by the physician.

7.41 Our review of the Commission's confirmation system has revealed that there are a number of deficiencies that weaken this accountability process. These deficiencies have existed for some time but with the increase in the electronic submission of claims, the confirmation process has become even more important. The deficiencies noted include:

- Forty-three percent of the doctors did not have a single service confirmed during the year and no alternative verification procedures were performed;
- At least 75 percent of all services billed to the Commission have no chance of being confirmed;
- Non-replies to confirmations of office visits are not followed up;
- Thirty-three confirmations for 1989-90 were in disagreement but there was no evidence of follow-up;
- The actual quantity of confirmations sent was less than the number required in the confirmation plan for 1989-90;
- Detailed procedures for the confirmation of claims have not been documented; and
- The Commission does not confirm or perform other procedures on services received by Island residents while in another Province.

The confirmation process is a vital link in the accountability for over $25 million in payments. The problems noted, however, render it ineffective.

Recommendation

7.42 The deficiencies in the confirmation process should be corrected as soon as possible. The purpose of the confirmation system, selection methods, timing of procedures, follow up procedures, and reporting should be documented and communicated to the staff responsible. Staff responsible for implementation should be adequately trained to perform the procedures required.

Internal Audit

7.43 The Commission does not have a separate internal audit function, however, a number of procedures are performed to verify the accuracy of claims.

7.44 These procedures are not sufficient. An audit plan designed to systematically ensure that the systems established to ensure compliance with the tariff of fees, regulations, and legislation are functioning properly, and the operating and financial information they produce is reliable and accurate is required. Staff knowledgeable in internal audit procedures are required to supervise and carry out the plan.

Recommendation

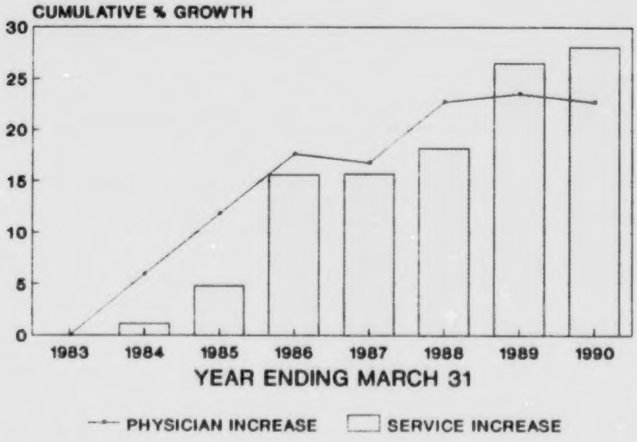
7.45 A separate internal audit function should be established to coordinate all internal audit activities. This could encompass the audit work now performed by Commission staff on the hospitals.

Number of Physicians

7.46 The physicians are critical to the provision of health care services and are referred to as the gatekeepers to the health care system. They are the first point of contact for the population and all subsequent costs will be the result of an action initiated by the physician.

7.47 As illustrated in **Exhibit 7.4**, until 1989 there is a correlation between the increase in the number of physicians and the increase in services. Over the last seven years the number of physicians has increased by 22.6 percent and the number of services has increased by 28 percent.

EXHIBIT 7.4
MEDICAL SERVICES
GROWTH COMPARISON



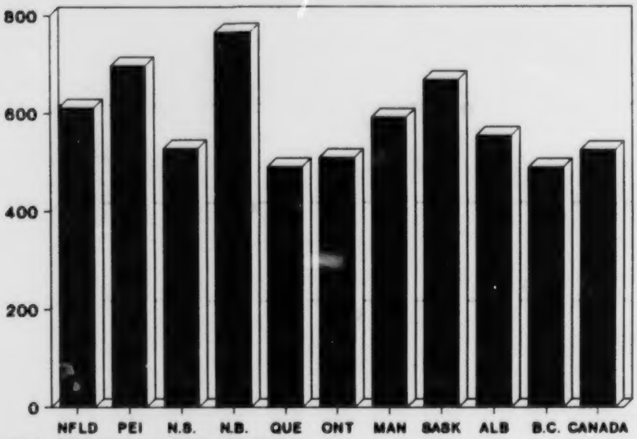
INCREASE OVER 1983

7.48 For the most part, the number of services per physician is remaining relatively constant. The utilization of services and the growth in the number of physicians must be analyzed in order to manage the growth in health care costs.

7.49 A Medical Personnel Advisory Committee assessed the physician's role in the health care system, identified the key issues, prioritized the identified needs, and developed recommendations. The Committee's findings were included in a Medical Personnel Report presented to Executive Council.

7.50 The Medical Personnel Advisory Committee did not determine the appropriate number of each type of physician required, however, they did compare the complement for each hospital area with national patient/physician ratios. It was found that in almost all specialties the ratios indicated that there were less physicians per person on PEI than the national ratios. The report does not indicate whether PEI has too few physicians. The population per physician for each of the Provinces in 1988 is illustrated in **Exhibit 7.5.**

EXHIBIT 7.5
MEDICAL SERVICES
POPULATION PER PHYSICIAN
1988 DATA



SOURCE : HEALTH & WELFARE CANADA
CANADA HEALTH MANPOWER INVENTORY

7.51 As a result of the Medical Personnel Report the Commission in conjunction with the Medical Society has established the Physician Resource Planning Committee for the purpose of identifying and ranking physician supply needs. The committee compared the current physician complement with the hospitals identified requirements, and the difference was defined as physician needs. The needs were prioritized, and short term and long term recruitment requirements were identified. However, the Commission did not develop a plan or methodology to actively recruit required physicians.

7.52 The items raised in the Medical Personnel Report have not been quantified which makes it difficult to determine their potential financial impact on the Commission. For example, the total cost of not having specialists available on Prince Edward Island would be helpful in deciding whether to recruit certain specialists.

Recommendations

7.53 The Commission should determine the financial impact of having services provided out of province rather than locally for each type of specialty. Out-of-Province costs should include both the Commission's and patients' costs. These should be compared to the cost if a specialty was provided locally including the hospital, laboratory and equipment cost for that specialty.

7.54 The Physician Resource Planning Committee should rank requirements in more detail and develop a recruitment methodology to ensure identified shortages are dealt with in an orderly fashion. The ranking process should ensure that physicians are located where they are most needed.

Physician Profiles

7.55 To ensure that expenditures for medical services are monitored, the Commission should have adequate information systems in place. One type of information which would prove useful is physician profiles, which allows the comparison of a physician's practice against a norm such as the average of his peers. The Commission does not have adequate information on physician profiles for use by the Medical Director. The information provided on physician profiles could be used to highlight significant differences in utilization and fee codes requiring follow-up and explanation.

7.56 During our examination we used the existing information system to perform different types of analyses on physicians' practices. Regression analysis was used to compare physicians of a particular specialty to their peers to determine if practices had similar characteristics. This included comparing total billings to the number of services provided. We also compared the practitioner's practice with the average of their peers and analyzed particular billing codes to determine if they were used more frequently by certain physicians.

7.57 We found that for each area of physician's practice we analyzed, there were unusual practice patterns requiring further explanation. Some of the reasons for the differences are: some practices combine specialties and general practice; part-time practitioners; and geographic availability of services. Other differences could not be readily explained and would require further study by the Medical Director.

7.58 This type of analysis on physicians' practices is not currently performed. We forwarded the results of our work to the Commission for further review.

Recommendation

7.59 The Commission should ensure that physician profile information is available for analysis by the Medical Director as soon as possible.

Quality of Care

7.60 Issues involving the quality of care provided by physicians are the responsibility of the College of Physicians and Surgeons. The Commission has an interest in these matters because they are directly related to whether the Commission is receiving value for money for the $25 million spent on medical services.

7.61 The Commission records all of the information related to services provided to patients. It would be reasonable to assume this information would be useful to the College of Physicians and Surgeons in monitoring the quality of care provided by physicians, however, this information is rarely shared with the College. The Commission intends to follow up on this idea as part of their dialogue with the physicians to improve health care.

Recommendation

7.62 The Commission should consult with the College of Physicians and Surgeons to determine what information is required by the College to monitor the care provided by physicians.

Patient Demand

7.63 There are few limitations to the number of services a patient can request. Given this system it is important that patients are knowledgeable enough to use the health care system prudently. The Commission has done very little to increase the awareness of individuals about the benefits and costs of the health care system although it is recognized as an important issue.

7.64 Patient profile information would be useful for ensuring that patients are utilizing the system for its intended purpose. Management does not readily have the capacity to extract patient profile information.

Recommendations

7.65 The Commission should consider researching the use of a public awareness campaign to encourage the effective use of the health care system.

7.66 The information needs at the Commission should be clearly defined and patient profile information should be available.

Management Information

7.67 Management information is essential to ensure operations are monitored for efficiency and effectiveness. The information must be sufficient, relevant and timely. We found in most of the areas we examined, the information was deficient and we have made observations and recommendations in other paragraphs of this section.

7.68 In addition the Medical Director identified a problem in obtaining timely information on specific issues. This would include, for example, information categorized by diagnosis, geographic area, or hospital.

Recommendation

7.69 The Medical Director and senior management should be provided with sufficient, relevant, and timely information necessary to fulfill their responsibilities.

Confidentiality

7.70 Medical information is extremely confidential and all precautions should be taken to ensure it is safeguarded and remains confidential. During our examination we did note some controls which could be strengthened and these were brought to the attention of the Commission.

Recommendation

7.71 Information storage and handling procedures should continue to be reviewed to ensure all steps are taken to protect the confidentiality of medical information.

MANAGEMENT RESPONSE

7.72 Our report was discussed with the Medical Director and senior management. They agreed with our findings and recommendations, and a written response will be provided.

8. PROPERTIES AND SURVEYS

BACKGROUND

8.1 The Properties and Surveys Section of the Department of Transportation and Public Works is responsible for the acquisition and disposal of crown lands and for the securing of necessary rights of way. Crown lands and rights of way are necessary for road construction and maintenance, construction of schools and other government facilities. The Section also carries out land surveys for government. Currently there are over 660 crown land parcels in the inventory administered by this Section as well as numerous other land parcels for roadways.

8.2 A great deal of the Section's activity is centered around highway construction and maintenance activity. Highway projects involve not only purchases of land and rights of way, but also the settlement of claims from adjacent land owners affected by construction and maintenance activity.

RESULTS IN BRIEF

8.3 Clear direction should be obtained from government regarding the accumulation and maintenance of crown land inventory.

8.4 The Section's objectives are not documented and an annual plan is not prepared.

8.5 There is insufficient attention given to management of the existing land portfolio.

8.6 The information requirements of the Section need to be defined, and improved reporting mechanisms implemented that function on a consistent basis throughout the year.

8.7 Improved management and reporting of staff performance is required to monitor productivity and efficiency.

8.8 Individual property projects, especially those involving road construction, are not being completed on a timely basis resulting in the risk of construction delays and financial loss to government.

8.9 Employee travel claims were not always properly completed and authorized.

AUDIT SCOPE

8.10 In accordance with Section 13 of the Audit Act, we performed an audit on the Properties and Surveys Section of the Department of Transportation and Public Works. Our objective was to assess the management and control procedures in place for the Section. Our report was issued to the Department in September 1990.

PRINCIPAL FINDINGS

Policy Direction

8.11 The Properties and Surveys Section has 660 crown land parcels in its inventory and a number of those are not in active use. A wide range of policy alternatives exist regarding the accumulation and maintenance of crown land. For instance, idle crown land could be transferred back to private ownership or alternatively government may wish to accumulate and retain land parcels within the public domain. We found that there is no government endorsed policy on this issue to aid staff in making decisions.

Objectives and Planning

8.12 There are no documented objectives for the Section. Documented objectives should form the basis of strategic and operational planning and would demonstrate whether the Section's direction is in line with that of the Department. We also noted that the Section has not been required to submit any form of planning document, other than the budget, to Divisional or Departmental management. A documented plan would identify important issues and the actions intended to address them.

Land Portfolio Management

8.13 As observed in past audits of the Section, there is little attention given to land portfolio management. Portfolio management encompasses such things as identifying appropriate levels of inventory to hold, selling unnecessary parcels, maximizing the use of existing lands in the inventory, identifying current users and uses of these lands, and protecting existing land inventory against squatters, timber raiding, and other natural or man-made hazards.

Property Projects

8.14 There is currently a large backlog of property projects awaiting the attention of Section staff. The effects of these backlogs are reason for concern. We were advised that in some cases road construction activity has begun without all of the necessary property work and damage settlements being completed, while in other cases there have been construction delays. In one case a public road was re-routed through land not owned by government. In this case only a verbal agreement had been made and it was not until a year after the road was put into use that the payments were made and the deeds registered. Incomplete transactions and delays such as those outlined can lead to a number of costs to government including construction delays, inflated damage claims from land owners, and the threat of litigation.

8.15 While it was not possible to determine the full cause of project backlogs and delays, we did note some inefficiencies that have contributed to the problem, including:

. The Section has not set any guidelines for the type and quantity of background information to be supplied by client departments at the outset of a project. Currently the property agents must spend time gathering this background data.

- Property agents with specialized skills in the areas of appraisal, analysis, and negotiation were performing clerical work, which could be assigned to support staff thus freeing up time for agents to devote to other projects.
- There seems to be a communication problem within the Department of Transportation and Public Works. Property Agents informed us that they often have insufficient notification or lead time for upcoming highway projects.

Management Information Systems

8.16 We found that most of the Crown Property Controller's information is gleaned from day to day contact with his staff as well as his personal involvement in some projects. While such meetings serve a useful purpose, they are not sufficient to manage the Section. We found that there were very few reporting mechanisms, and those mechanisms that were in place did not operate effectively throughout the year. For example:

- A log of all assigned projects which the Controller used to control and monitor work assignments had not been updated for 2 - 3 months.
- The computerized land information system was not being updated for land transactions and for various reasons was not being utilized.
- Weekly work plans were not always submitted by staff as required.
- Reports from the survey staff consist only of an annual summary of projects worked on.

These deficiencies in reporting and information seriously hamper the Controller in administering the Section.

Performance Management

8.17 In a past audit of this Section, we commented on the lack of performance management and reporting. We have found that the Section still has not addressed this problem.

8.18 The absence of performance targets means that expectations are not clearly defined for employees. When expectations are not established there is little motivation for employees to work efficiently and also any evaluation of employee performance is difficult.

8.19 Performance indicators could be introduced such as employee time per project, travel costs per project, total costs per project, or percent of employee time in the field versus office administrative time. The work performed by the Section is project oriented and well suited to this type of performance reporting by project. The results of such measurements could be compared to targets to determine whether the amount of resources used to accomplish tasks is reasonable.

8.20 Employee performance appraisals are not performed regularly and when they are completed, the appraisal does not address the key job skills and tasks related to the job position. Appraisals can be used to communicate to the employee those factors important to their job position and when performed regularly can assist in identifying corrective actions or opportunities for improvement.

Travel

8.21 Staff of the Section must do a considerable amount of in-province travel for which they are reimbursed. We found that supervision and monitoring of these travel claims was inadequate, for example:

- . Six travel claims were not properly authorized.
- . One third of the travel claims did not list specific travel destinations but rather used vague references, such as Eastern Kings.
- . We found that some travel claims had variances between the distance claimed and the measured distance for the destination listed. Some claims varied by as much as 28 percent. While some variance can be expected, differences of this magnitude are unreasonable and management should seek and document explanations in such cases.

RECOMMENDATIONS

8.22 The Properties and Surveys Section should seek an overall policy from government with respect to the accumulation and maintenance of crown land inventory.

8.23 The Section should take the steps necessary to manage the current land portfolio, including regular inspection of all land parcels, gathering essential data, and generating timely status reports for management purposes.

8.24 Road construction should not take place until all land acquisition procedures are completed and the necessary documents signed.

8.25 The Section should require all departments to include specific background information with their project requests.

8.26 The information needs of the Section should be determined and a management information system developed to address these needs.

8.27 The Section should develop and document employee performance targets and the actual results achieved should be monitored and reported.

8.28 All travel expense reports should be scrutinized for reasonableness, explanations obtained for questionable items, and claim forms properly authorized.

DEPARTMENTAL RESPONSE

8.29 The Department agreed with our report.

9. COMPUTER SECURITY REVIEW

BACKGROUND

9.1 The Computer Services Division (CSD) of the Department of Finance provides a complete range of information processing services to government departments and Crown agencies. Those services include system development, project management, facilities management, training and technical support, and consultation on the use of information processing technology.

9.2 The Division houses government's central mainframe computer along with most of the peripheral equipment necessary for its operation. The majority of government's larger computerized applications operate on the mainframe computer.

9.3 The applications that run on the mainframe are critical to the government's ability to continue operations at current levels and to deliver its programs effectively. Therefore, it is important to ensure those assets are adequately safeguarded.

9.4 The Division also provides services in the design and maintenance of applications and in the administration of access to various applications and the associated data. Controls must be built into these functions to ensure the integrity of the information produced and to adequately safeguard confidential or sensitive data.

RESULTS IN BRIEF

9.5 A disaster recovery plan for restoring key computer operations needs to be completed.

9.6 Emergency and back-up procedures in the event of a major disruption need to be strengthened.

9.7 Controls over access to the Government Complex require improvement.

9.8 System security features are not being fully utilized.

9.9 Control over the segregation of development, maintenance, and production environments needs improvement.

9.10 Most of the issues raised in our 1985 security review have been resolved.

AUDIT SCOPE

9.11 A review of security at Computer Services Division was carried out in accordance with Section 13 of the Audit Act.

9.12 The purpose of this review was to follow up on issues reported in 1985, and to assess the impact of significant changes within the Division on controls and security. A computer specialist was engaged to assist in the performance of this examination.

9.13 The examination was carried out with full cooperation from Computer Services Division management and staff, and our report was issued to the Department in June 1990.

PRINCIPAL FINDINGS

Back-up and Disaster Recovery

9.14 In the event that a processing disruption occurs it is necessary for government to be prepared to restore and resume its operations. This recovery would be much more difficult if the disruption was due to a major disaster such as fire or water. On PEI, the impact of a slow recovery of government operations would be immense. Delays in the processing of social assistance, payrolls, medical payments, and other systems would be detrimental to the economy and to the well being of some Islanders. There would also be a temporary loss of information necessary for operations, management, planning, and control.

9.15 A full disaster recovery plan is not in place for those government operations supported by CSD. The Division recognizes the importance of this issue and a project has been initiated to put such a plan in place. The first phase of the project has been completed.

9.16 Although a fully integrated disaster recovery plan is not in place, CSD does take some precautions which would allow recovery in the event of certain types of disruption. Routine back-up and off-site storage of data files is one of the precautions taken by CSD. We noted during the review some deficiencies with the current back-up procedures:

- Some files are not part of the regular back-up routine.
- Back-up tapes are moved off site only once per month. More frequent movement would lessen the possible recovery delays.
- Copies of important application and system documentation are not stored off site nor are listings such as the tape inventory.

Fire, Water, and Disruption Protection

9.17 Procedures for dealing with an emergency in the computer room have been documented. However, procedures have not been documented and tested for the remainder of the CSD area nor the rest of the government complex. The protection of personnel, documentation, and equipment in these areas should also be addressed in emergency procedures.

9.18 The CSD computer room contains a Halon fire suppression and alarm system. The entire automated sequence of events that is to occur in an alarm situation has not been fully tested. There is also no back-up to the Halon system.

9.19 We also found that the computer room does not have water sensitive alarms installed beneath the floor to assist in the timely detection of any water problems. Also CSD does not have any protective covers for the equipment in the event of a water problem.

9.20 There are also a number of other factors that can contribute to a disruption in the operations of the computer facility:

- There is no back-up power supply to allow for continued operations when there is a power failure.
- The computer consists of only one processor leaving no back-up or alternative method of continuing operations in the event of its failure.
- Other vital pieces of peripheral equipment such as communications switches and disk controllers have no back-ups or substitutes.

9.21 We recognize there is a trade-off between adequate safeguards and the cost of implementing them. CSD is attempting to deal with any deficiencies, keeping in mind the costs involved.

Building Security

9.22 The government buildings are secured after hours by Commissionaires who ensure only authorized persons with passes are admitted into the complex. We noted at the time of our review that CSD staff use, as passes, the cards issued to them to open CSD's electronic doors. These cards contain no photo to identify the holder. Commissionaires do not seek other identification and, therefore, cannot ensure that the person with the card is the employee to whom it was originally issued.

System Security

9.23 Some of the security related duties are still carried out by staff other than the security administrator. For this and other reasons, the "admin" account on the computer system, which is used to control many of the system's security functions, is used by more than just the security administrator. This creates increased opportunity for security to be contravened. Similarly, a number of computer users have extensive access to some of the system's powerful functions which could allow some system security features to be circumvented.

9.24 In reviewing the security features associated with the new computer operating system and the security software, we noted that some of the features are not used. As a result, some of the benefits are not being realized. We also found that this security is not applied to all of the applications that are run on the computer. As a result, the quality and degree of security can vary from application to application.

9.25 One of the main security features commonly found in computer environments is user passwords. The effectiveness of passwords depends greatly on the cooperation of the users and their understanding of the importance of passwords. We found that the CSD password policy does not clearly communicate user responsibilities or the consequences of user abuse of passwords or other privileges.

9.26 The computer system creates a log of all denied access attempts and other unusual incidents. We noted, however, that this is not reviewed or followed up by CSD staff. As a result, timely action may not be taken to address potential security threats.

Development, Maintenance, and Production Environments

9.27 We reviewed the controls in place to ensure the functions of program development, maintenance, and production are well segregated. We found that programmers continue to have access to some programs after they are put into use in the production environment. This unrestricted access can result in changes being made to a program after it has been tested and authorized for production. Untested and unauthorized changes to programs increase the risk of fraud or errors going undetected.

9.28 Within the production environment, we found that while tapes are signed out from the tape library, their return and the return of any newly created tapes is not verified. It is therefore not possible to confirm, on a timely basis, that all tapes have been returned to the tape library.

RECOMMENDATIONS

9.29 The disaster recovery project should be completed. Also, CSD should assess the adequacy of file back-up procedures and consider storing copies of critical documentation and listings at the off-site storage facility.

9.30 CSD should continue its efforts to secure a back-up power supply and should also consider the extent to which back-up can be obtained for other critical equipment.

9.31 The Halon fire suppression and alarm system should be completely tested, and the need for a back-up system assessed. Consideration should be given to installing water sensitive alarms beneath the computer room floor and plastic covers should be acquired to cover the equipment in the event of a water problem.

9.32 Photo IDs should be required for computer services staff to enter the Government Complex after hours.

9.33 CSD should periodically examine the privileges granted to some of the more powerful computer accounts. Opportunities to enhance control by disabling less frequently used accounts or functions should be considered.

9.34 CSD should continue to investigate and test those security features of the new computer system that are not currently in use, and consider applying the system security features to all major applications. Also, the current password policy should be expanded to further clarify user responsibilities and the consequences of abuse of privileges.

9.35 Development and maintenance programmers should not have access to production files. All production files should be classified as non-shareable rather than shareable.

9.36 The movement of tapes between the tape library and the computer room should be logged, verified, and periodically reconciled.

CONCLUSION

9.37 We found that many of the issues raised in our 1985 review of the computer environment have been resolved and we expect that the matters raised in this year's report will be addressed.

DEPARTMENTAL RESPONSE

9.38 Computer Services Division has responded to our report and we are satisfied that consideration has been given to all points raised. Several recommendations have already been implemented.

10. DEPARTMENT OF AGRICULTURE - GRANTS

BACKGROUND

10.1 In 1989-90 grants of $17.4 million representing over 6,000 payments were issued to producers, producer agencies, and other agricultural related organizations.

10.2 Grant payments accounted for 64 percent of all Department of Agriculture expenditures during 1989-90 and comprised 79 separate grant programs.

RESULTS IN BRIEF

10.3 Sufficient information is not being obtained to adequately monitor and evaluate the various grant programs.

10.4 There was little evidence that incentive programs for the hog industry, amounting to $2.5 million for 1990, achieved their objectives.

10.5 During the past ten years, over $38 million was paid by government to support and subsidize the hog industry including $26 million for hog stabilization.

10.6 A new National Tripartite Program became effective in April 1989 which is intended to limit government's financial burden for hog stabilization payments.

AUDIT SCOPE

10.7 We conducted an audit of grant programs administered by the Department of Agriculture. The objective of our audit was to determine if adequate management practices exist for the approval of payments and the evaluation of grant programs.

10.8 Four programs were excluded from our audit: the Potato Seed Incentive Program and the Limestone Incentive Program which were recently audited; and the Tobacco Transition Adjustment Initiative and Atlantic Livestock Feed Initiative, which will be scheduled for a future audit.

10.9 Our report was issued to the Department of Agriculture in January 1991.

PRINCIPAL FINDINGS

Hog Industry Programs

10.10 The Swine Incentive Program cost $964,000 in 1989-90. One of the program's main objectives is to encourage producers to increase their production to satisfy the throughput requirements of the Garden Province

Meats processing facility. In 1989-90 only 3,300 hogs per week were processed compared to the 4,500 hogs per week needed by the plant to remain financially viable.

10.11 An additional 300 hogs per week were shipped to a company in New Brunswick. These shipments were supported by $18,000 in grants paid by the Department under the Hog Marketing and Transportation Assistance Program.

10.12 Another objective of the Swine Incentive Program was to improve production quality and efficiency. However, the Department only obtains sufficient information to determine if quality has improved, and no data on efficiency is documented. According to the results of a study, published in the Department's newsletter, production cost differences of up to $75 per hog exist between Island hog producer operations despite the fact that this program has been in place since 1985.

10.13 In 1989-90, the Department introduced the Swine Cost of Production Reduction Program. This program, costing $1.5 million, was for one year only and had as its principal objective, to assist PEI producers to reduce their cost of production.

10.14 We noted several program deficiencies. Although formal application procedures existed, no inspections were carried out to ensure funds were used for the purposes intended. Grants were issued to all producers based upon each operation's annual hog marketings without reference to each producer's cost of operation. Financial statements and other cost data were not obtained to verify the producer's cost of production. Also, subsequent information was not required to demonstrate that funds provided actually reduced the recipient's cost of production.

10.15 The Interim Hog Price Stabilization Program costing $3.6 million, was introduced on April 1, 1989. Its purpose was to subsidize producers for the first 21 months of their participation in the National Hog Tripartite Price Stabilization Program. This was a one time subsidy that bumped the producers' payments under the new plan back up to the level under the old provincial stabilization plan.

10.16 We noted that this program also included the producers' share of premiums under the new National Tripartite Program. These premiums, approximately $570,000, were in addition to any payments normally received under the old plan.

10.17 For the Interim Hog Price Stabilization Program, no formal agreement existed between the Department and the producers' representative, the PEI Hog Commodity Marketing Board. Such written contractual arrangements would set forth all of the terms and conditions attached to the program, including the termination date.

Hog Industry Loans and Write-Offs

10.18 In 1989, the Hog Commodity Marketing Board owed over $8.2 million in bank loans as part of the old Provincial Hog Price Stabilization Plan. These loans were guaranteed by the Province which also paid the interest on the loans. With the expiration of the provincial Plan on March 31, 1989, the Department paid off these loans through grants.

10.19 The Province has paid over $38.7 million to the hog industry since 1980. A summary of grants and payments to the industry is presented below.

HOG INDUSTRY
SUMMARY OF EXPENDITURES

Year	Agriculture Programs Grants (1)	Hog Stabilization Grants (1)	Total Grants	Hogs Marketed (2)
1980/81	$ 173,864	$ 884,216	$ 1,058,080	162,739
1981/82	199,580	898,667	1,098,247	161,597
1982/83	268,184	407,818	676,002	151,852
1983/84	267,975	1,187,753	1,455,728	160,228
1984/85	270,735	1,651,832	1,922,567	181,124
1985/86	2,057,910	2,027,447	4,085,357	167,703
1986/87	1,580,444	1,169,356	2,749,800	169,578
1987/88	3,325,533	842,820	4,168,353	186,634
1988/89	1,408,457	10,788,906	12,197,363	192,533
1989/90	2,677,401	6,628,826	9,306,227	185,287
TOTALS	$12,230,083	$26,487,641	$38,717,724	1,719,275

(1) Information obtained from the Public Accounts.

(2) Information obtained from the Department of Agriculture.

The amount paid out by government over this ten year period averages $22.52 for every hog marketed under the stabilization program.

10.20 The new National Tripartite Program provides monies to the producers on a quarterly basis compared to monthly as existed under the previous Provincial plan. At the Board's request, the Province agreed to guarantee a $2 million line of credit which would enable the Board to continue providing funds to producers monthly. Each quarterly rebate under the National plan would then be applied against the loan balance with interest paid by the Department. Although a formal agreement existed specifying all terms and conditions, the grant program policy was outdated and referred only to interest incurred under the old provincial plan.

10.21 Although the new National Tripartite Program became effective on April 1, 1989, the Hog Board received a $1.5 million rebate under the Program for the first quarter of 1989. It was the Board's intention to distribute these funds among the producers. The Province held the position that these funds belonged to government and were part of the package that led to PEI's entry into the Program. Furthermore, the producers were already paid for the first three months of 1989 under the old Provincial plan and to distribute this rebate would have resulted in paying producers twice.

10.22 Through negotiation, the Board agreed to return the $1.5 million to the Province after the Province paid all the grants under the $1.5 million Swine Cost of Production Reduction Program. Because seven months elapsed before the $1.5 million was paid over to the Province, it cost the Province approximately $85,000 in lost interest.

Management Information - Other Grants

10.23 The main reporting system in use by the Department is the Province's Financial Information System. Although adequate for exercising control over expenditures, it does little to assist management in planning and evaluating programs.

10.24 Although each grant has a separate account number, management reports do not include a specific title for each grant, making it difficult to clearly distinguish and monitor them.

10.25 An effective management information system should report the actual results achieved by these grant programs, compared to the results expected. The majority of the programs do not indicate the results to be achieved which makes it difficult for management to assess the effectiveness of the programs.

Other Grant Programs

10.26 Approximately 60 other grant programs costing $2.8 million were examined to ensure program policies were established and that each contained objectives, eligibility requirements, and specific terms and conditions. The reporting processes were also reviewed to determine if management was provided with adequate information to control expenditures and assess the effectiveness of the programs. For 24 of these 60 programs costing $2.4 million, additional audit work was done to determine compliance with program policies.

10.27 Most grant programs are supported by written program policies. These policies specify the objectives, eligibility, termination dates, funding requirements and include the terms and conditions which must be met by the grant recipient.

10.28 We noted in almost all cases where terms and conditions were stated, applicants were not required to acknowledge in writing acceptance of these requirements.

10.29 In addition, the applicants were not required to signify that: information provided was correct; funds would be used for purposes intended; and access to property and records would be provided if deemed necessary.

RECOMMENDATIONS

10.30 The information required by management to monitor the effectiveness of grant programs should be obtained and reported on a regular basis.

10.31 Applications for grant funds should provide for certification by the applicant that: information provided is correct; terms and conditions of the program will be followed; and the Department will be allowed access to property and records if necessary.

10.32 A process to evaluate the effectiveness of each grant program should be implemented.

DEPARTMENTAL RESPONSE

10.33 We have not received a written reply to our report; however, the initial response from program directors was positive.

11. MICROCOMPUTERS - MAINTENANCE AND REPAIRS

BACKGROUND

11.1 Maintenance and repair of microcomputer hardware is necessary to ensure the satisfactory operation of the equipment, and that faulty equipment is returned to working order with minimum disruption to operations and cost to the organization.

11.2 The Government of PEI owned about 500 microcomputers and 450 printers as of May 31, 1990. Over 75 percent of these items were acquired since 1987.

11.3 Microcomputer maintenance and repair costs in 1989-90 totalled about $85,000. Approximately $125,000 was estimated for maintenance and repairs during 1990-91. This amount will probably increase substantially in future years due to additional purchases and deterioration of existing equipment.

RESULTS IN BRIEF

11.4 The assignment of duties and responsibilities for microcomputer hardware maintenance and repairs is not clear.

11.5 Additional efforts are needed to explore the most cost-effective alternatives for obtaining hardware maintenance and repair services.

AUDIT SCOPE

11.6 We examined microcomputer hardware maintenance and repairs in accordance with Section 13 of the Audit Act. Our audit objectives were: to determine Government's cost of maintenance and repair services; to determine how these services are acquired; and to determine whether the process for acquiring these services is reasonable.

11.7 Our report was issued in January 1991 to Computer Services Division of the Department of Finance.

PRINCIPAL FINDINGS

Responsibility for Maintenance and Repairs

11.8 Staff of Computer Services Division (CSD) advised that their involvement in microcomputer hardware maintenance and repairs is essentially that of arranging bulk tendered contracts. This does not include evaluating alternative methods of acquiring maintenance and repair services.

11.9 There are differences of opinion between microcomputer coordinators and staff of CSD as to the role of CSD in microcomputer repairs and maintenance. Microcomputer coordinators from the various departments and agencies perceive that CSD plays a very broad role. For example:

- Fifteen coordinators believe CSD is responsible to carry out cost-benefit evaluations to determine and advise whether or not to purchase maintenance and repair contracts.
- Seven coordinators thought that CSD is responsible to ensure that service charges are reasonable and in accordance with any contracts, and five coordinators felt this responsibility is shared between CSD staff and departments and agencies.

11.10 In both of these examples above, CSD believe that the responsibilities rest with the department or agency. These differences of opinion can result in equipment not being properly repaired and maintained and unnecessary costs being incurred by government.

Acquisition of Maintenance and Repair Services

11.11 In each of the past four years, CSD and the Purchasing Division jointly called for tenders and selected vendors for microcomputer hardware maintenance and repair services. Although this may appear to be the most cost-effective alternative to microcomputer repairs and maintenance, there are a number of other factors to be considered.

11.12 Service vendors do not know how many units will be serviced under the contract when submitting tender bids. Vendors might submit lower unit prices if they knew the number of units within a given category.

11.13 In some cases, other alternatives may be more economical. For example, four departments chose not to purchase service contracts for 60 microcomputers, 73 printers, and 3 monitors. The savings by choosing this alternative totalled about $12,000.

11.14 In addition, written service records, which are useful to monitor the value of services received under the contracts, were not received by some departments or agencies.

11.15 When choosing the most suitable arrangement for maintenance and repairs, the risks and costs of operational interruptions and available alternatives have to be considered. Some alternatives to tendering include: equipment suppliers' maintenance and repair agreements; contracts with third party service companies; no contracts at all; keeping equipment reserves; providing one's own in-house maintenance and repairs; or a combination of these options.

RECOMMENDATIONS

11.16 Computer Services Division should, in consultation with departments and agencies, clarify and communicate the duties and responsibilities for microcomputer hardware maintenance and repairs.

11.17 Computer Services Division should determine whether microcomputer maintenance and repairs are acquired in the most economical manner. Consideration should be given to all alternatives including whether Government should be providing more services in-house.

11.18 Computer Services Division should ensure that service records are used to determine the value of services provided under the contracts, and to assess whether Government's costs for microcomputer hardware maintenance and repairs are kept to a minimum.

DEPARTMENTAL RESPONSE

11.19 Computer Services Division agreed to follow up on our report.

REPORTS ON FINANCIAL AUDITS

12. INTRODUCTION TO FINANCIAL AUDITS

BACKGROUND

12.1 Section 13(1) of the Audit Act establishes the mandate for financial audits of the Public Accounts, Crown controlled or owned corporations, and of the trusts and funds held by any agency of government insofar as they are not subject to financial audit by an external auditor.

12.2 A substantial part of the office's resources are required to perform financial audits required by legislation. The objective of these audits is to express an opinion on the financial position and operating results of these entities. Therefore, the main output from these audits is often limited to the standard auditor's report on the financial statements.

12.3 In addition to issuing an auditor's report on the financial statements, the auditor may observe problems in the quality of records and financial controls. Problems may also be observed in other areas. In these cases audit findings and recommendations are reported in a management letter addressed to the client. A number of management letters were issued based on our financial audits for the year ended March 31, 1990. A summary of the more significant points made in these letters is provided in subsequent sections.

FINANCIAL STATEMENT AUDITS

12.4 Following is a list of financial statement audits performed this year and the expenditures of each entity.

AUDIT ENTITY	ANNUAL EXPENDITURES
Public Accounts	$739,040,000
Hospital and Health Services Commission	114,408,000
Liquor Control Commission	29,944,000
Housing Corporation	10,536,000
Land Development Corporation	4,305,000
Crop Insurance Agency	746,000
Grain Elevators Corporation	4,009,000
Crown Building Corporation	628,000
Charlottetown Veterinary Clinic	1,772,000
Lotteries Commission	3,290,000
Civil Service Superannuation Fund	8,242,000
Teachers' Superannuation Fund	7,480,000
MLA Pension Fund	545,000
Museum and Heritage Foundation	930,000
Human Rights Commission	128,000
Advisory Council on the Status of Women	125,000
Self Insurance and Risk Management Fund	128,000
Supreme Court Trust Accounts	168,000
Carnegie Endowment Fund	10,000
Official Trustee	-

12.5 Financial statements are management's responsibility and reflect management's assertions. They provide information that is used to make important economic decisions. It is important that the reader has confidence in the quality of that information.

12.6 Financial statements reflect the assertions of Government and the Boards of Directors of Crown agencies, as to the results of the entities' operations, its cash flows for the year, and its financial position at year end. Financial statements are normally prepared in accordance with generally accepted accounting principles, which provide a recognized way of accounting for the actions and decisions of Government and the Boards of Crown agencies. The financial statements are prepared by management and approved by the Board before they are submitted to the Ministers responsible and the Legislature.

12.7 In the preparation and approval of financial statements, Government and the Boards of Directors must exercise considerable judgement in applying the appropriate accounting principles. They must also use their judgement in estimating the value of such assets as accounts receivable and inventories, and determining liabilities.

12.8 The auditor's responsibility is to provide an opinion on the financial statements based on an examination carried out in accordance with generally accepted auditing standards. These standards have been established over time and continue to evolve with the changing economic environment. They represent the professional performance required of all auditors. The auditor is independent of management and can objectively assess the accounting principles used, and the estimates and other decisions made by management as reflected in the financial statements. The result is an Auditor's Report which adds credibility to the assertions of management.

NEW AUDITOR'S REPORT

12.9 In October 1990, the Canadian Institute of Chartered Accountants approved a new standard Auditor's Report. The new standard report and the related recommendations are effective for reports dated on or after March 1, 1991, although earlier adoption is encouraged. The new expanded standard audit report explains more fully the nature and extent of the auditor's work, and the degree of assurance it provides.

AUDITOR'S REPORT

I have audited the balance sheet of .... as at ...., 19...... and the statements of income, retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of .... as at ...., 19..... and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

City (signed)
Date AUDITOR GENERAL

REPORT CONCEPTS

12.10 Some important concepts pertaining to the auditor's report that require explanation are the following:

"reasonable assurance"
It is not cost effective for the auditor to look at all evidence supporting the amounts and disclosures in the financial statements. The auditor obtains reasonable but not absolute assurance. He or she determines what, when, and how much to test on the basis of his or her professional judgement and expertise, with due regard to generally accepted auditing standards.

"material misstatement"
A material misstatement is one significant enough to affect the decision of a reader with reasonable knowledge of business and economic activities. Misstatements arise from departures from fact, inappropriate estimates, and omissions of information in relation to the standard of generally accepted accounting principles.

"An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation."
An audit involves the exercise of professional judgement. The auditor is trained in understanding accounting principles and evaluating estimates which affect financial statements from an overall perspective. The auditor must know about the entity's activities, and the environment in which it operates.

"in my opinion"
The auditor's report is not a statement of fact. It expresses an objective, professional opinion.

"present fairly" and "in accordance with generally accepted accounting principles"
These two phrases are linked in the auditor's report. Together they reflect the essential message of fair presentation in the financial statements when measured against the standard of generally accepted accounting principles.

"in all material respects"
This phrase emphasizes the concept of materiality discussed above.

12.11 The new auditor's standard report should provide a clearer message concerning the role and work of the auditor. It also indicates that the financial statements are the responsibility of management.

13. PUBLIC ACCOUNTS

BACKGROUND

13.1 The Financial Administration Act requires the Minister of Finance to table the Public Accounts annually in the Legislative Assembly.

13.2 The Public Accounts include two main sets of financial statements; the Consolidated Fund, and the All Funds. The Consolidated Fund financial statements provide the financial position and results of operations for government excluding Crown Corporations. The second set of financial statements provides a consolidated financial picture by including the Consolidated Fund plus most Crown Corporations.

RESULTS IN BRIEF

13.3 The Province's obligation for future pension payments increased significantly over the past three years.

13.4 The accounting treatment for accelerated payments of government transfers needs to be revised.

13.5 The Energy Corporation has accumulated deficits of $3.9 million pertaining to capital projects that have not been appropriated.

13.6 The method for establishing the sales tax loss provision is inadequate.

AUDIT SCOPE

13.7 In accordance with Section 16 of the Audit Act, we performed an audit of the Public Accounts for the year ended March 31, 1990.

PRINCIPAL FINDINGS

Disclosure and Presentation

13.8 In 1987 we issued a report recommending that the Province adopt most of the recommendations in Accounting Statement 3 issued for the public sector by the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants. Since then three additional statements have been released: "Defining the Government Reporting Entity", "Accounting for Employee Pension Obligations in Government Financial Statements", and "Accounting for Government Transfers". As well, "Accounting and Reporting for Physical Assets by Government" has been issued as a research study.

13.9 The objectives of these statements are to make recommendations that will serve to improve and harmonize government financial reporting and accounting practices. Public Sector Accounting Statement 3 was issued by PSAAC in November 1986. This statement includes 35 recommendations on general reporting principles and standards for the disclosure of information in the financial statements prepared by governments. A number of these recommendations have been implemented, however, some transactions are still not being accounted for in accordance with the PSAAC statements.

13.10 Accounting Statement 4 entitled, "Defining the Government Reporting Entity" was issued in November 1988 and addresses the principles and criteria for determining which activities and Crown agencies should be included in government financial statements and, if included, how to account for them. The government complies with this statement in large measure, however, some Crown agencies are not being accounted for in accordance with this statement.

Pension Liabilities

13.11 Accounting Statement 5, "Accounting for Employee Pension Obligations in Government Financial Statements" was issued in November 1988 and deals with accounting and reporting of employee pension obligations in government financial statements. The statement states that pensions obligations result from a promise by a government to provide pensions to employees in return for their services and these obligations should be recorded. Presently, the notes to the Province's annual financial statements provide information about the unfunded liabilities of the pension funds for which government has a statutory responsibility; however, no liability has yet been established on the statement of financial position.

13.12 Recent actuarial valuations indicate the unfunded liability for the Civil Service Superannuation Fund increased from $63 million to $107 million and the MLA Pension Fund unfunded liability increased from $5 million to $9.6 million. These increases occurred over a three year period. A July 1, 1990 update on the Teachers' Superannuation Fund is expected in early 1991 and we anticipate the increase in the unfunded liability will be substantial. This information has serious implications because the Province is committed to make payments if fund assets are insufficient to provide pension payments.

13.13 We understand a plan of action for the Civil Service Superannuation Fund is under consideration but a course of action for the Teachers' Superannuation Fund and MLA Pension Fund has not been addressed.

Government Transfers

13.14 The recently released Accounting Statement 7 entitled, "Accounting for Government Transfers" was issued in November 1990 and provides recommendations on how to account for and report on government transfers in government financial statements. It includes transfers to individuals, organizations, or other governments. The new statement provides clear guidance on how future transfer payments should be accounted for.

13.15 This statement states that government transfers should be recognized in a government's financial statement as expenditures or revenues in the period that the events giving rise to the transfer occurred. In addition, these transfers should be accounted for in a manner that best reflects the substance of the underlying events rather than the form or funding pattern. The basis for determining the amount recognized should be applied consistently from year to year.

13.16 Near the end of 1989-90, the Province anticipated additional revenues and as a result increased the expenditures on some existing programs and brought forward a number of new program initiatives under an accelerated cash flow process. Payments under this process were recorded as 1989-90 expenditures.

13.17 Based on the newly released Public Sector Accounting Statement on government transfers, a number of these payments would have been accounted for differently. In future the recommendations provided in this statement should be followed.

Physical Assets

13.18 The Canadian Institute of Chartered Accountants also issued in August 1989 a research study on "Accounting and Reporting for Physical Assets by Government". The purpose of the research study is to stimulate thought, discussion, and debate on accounting and reporting issues for physical assets of governments. Although the study does not contain recommendations, a detailed review of the material suggests some improvements to the current accounting and reporting for physical assets may be required.

Energy Corporation Accumulated Losses

13.19 At March 31, 1990, the capital projects statement of the Energy Corporation showed an accumulated deficit of $3.9 million. The annual capital projects deficits have been significant over the past five years even after substantial Provincial grants.

13.20 Given the current operating results, it seems unlikely that the accumulated deficit will be recovered and therefore, should be appropriated by the Province.

Sales Tax Revenue

13.21 Sales tax receivable was understated by $250,000 at March 31, 1990. The receivable was not adjusted to reflect the balance in the receivable subledger at Revenue Division. This oversight also resulted in the 1989-90 sales tax revenue being understated by $250,000.

13.22 The March 31, 1990 sales tax provision for future losses was $74,000. In July 1990, Revenue Division identified $630,000 of accounts that were in receivership or bankruptcy. In October 1990, Revenue Division staff indicated the potential write-off could be $500,000. The provision did not reflect this information and was understated.

Surplus (Deficit) of Crown Agencies

13.23 Section 16(f) of the Audit Act requires the Auditor General to report any deficits of Crown agencies not covered by appropriations and any surpluses not paid into the Consolidated Fund. For the year ended March 31, 1990 the following entities have been directed by the Lieutenant Governor-in-Council to carry over their surplus.

Crown Agency	Surplus (Deficit)
PEI Energy Corporation	
. Operating	$ 285,715
. Capital	1,575,441
Georgetown Shipyard Inc.	572,223
PEI Crop Insurance Agency	1,595,976

13.24 When Executive Council approved the capital surplus of $1,575,441 for the Energy Corporation they were really approving two distinct and unrelated amounts. The balance sheet of the Energy Corporation shows a deficit from capital projects of $3.9 million and a capital surplus of $5.5 million. The deficit from capital projects represents the accumulated losses from operating capital projects over the years. The capital surplus account represents the result of capitalizing funds received for the capital cost of fixed assets. The surplus is being amortized to income on the same method that depreciation is provided on the related assets. Since the accounts are for two distinct purposes, it is inappropriate to combine them when government does their annual review of the financial statements of Crown Corporations. Only the deficit from capital projects of $3.9 million would meet the definition of Section 74 of the Financial Administration Act which deals with profits or losses of Crown Corporations.

Financial Administration Act Write-Offs

13.25 Section 16(g) of the Audit Act requires the Auditor General to report the total amount of any claims, obligations, debts or money due to the Province that have been discharged, cancelled, and released under Section 26 of the Financial Administration Act. The amount written off under this Section in 1989-90 was $362,000.

RECOMMENDATIONS

13.26 The recommendations of the Public Sector Accounting and Auditing Committee should be implemented or disclosure made in the notes to the financial statements of the reasons for non-adherence.

13.27 The Province should develop a course of action to deal with the unfunded pension liabilities for all pension funds. Steps should also be taken to recognize the unfunded liability in the Province's Statement of Financial Position.

13.28 Accelerated or delayed payments by government transfers should be accounted for in accordance with Public Sector Accounting Statement 7.

13.29 The accumulated deficit of $3.9 million for capital projects of the PEI Energy Corporation should be appropriated for.

13.30 The Province's sales tax receivable balance should be reconciled to Revenue Division records at least annually.

13.31 The method of calculating the sales tax loss provision should be reviewed to ensure it accurately reflects uncollectible amounts.

DEPARTMENTAL RESPONSE

13.32 The points raised have been discussed with the Comptroller.

14. APPROPRIATIONS

14.1 Our audit of appropriations included a review of the systems and procedures for the administration of the Province's annual budget. This required an audit of appropriations approved by the Legislature, special warrants approved by Executive Council on the recommendation of Treasury Board, and transfers approved by Treasury Board.

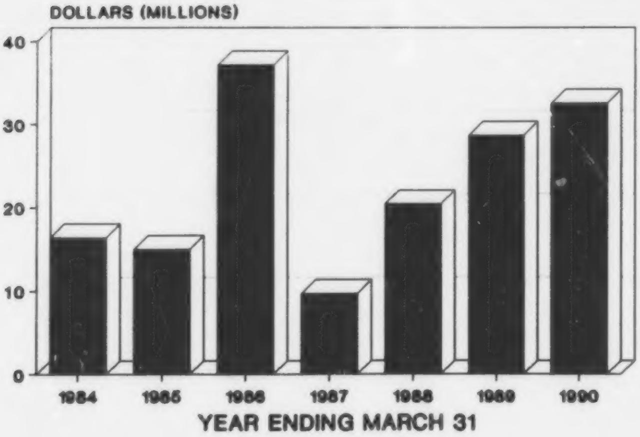
14.2 In **SCHEDULES A and B** attached to this report, we have compared appropriations with actual expenditures in accordance with the classifications in the 1989 Appropriation Act.

	SCHEDULE A ORDINARY ($000'S)	SCHEDULE B CAPITAL ($000'S)	TOTAL ($000'S)
Appropriations			
Original Act 1989 Session	$ 636,118	$ 40,073	$ 676,191
Supplementary Act 1990 Session	29,370	-	29,370
Increases by Order-in-Council	3,201	-	3,201
Total Appropriations	668,689	40,073	708,762
Actual Expenditures	653,317	37,680	690,997
Underexpenditures	$ 15,372	$ 2,393	$ 17,765

14.3 Section 16(h) of the Audit Act requires me to list in detail appropriations made by special warrant and the purpose of such appropriations. Details are shown in **SCHEDULE C** attached to this report. A number of the special warrants have revenue offsets under cost-sharing agreements with the Federal Government.

14.4 For the 1989-90 fiscal year, special warrants totalled $32.5 million compared to $28.7 million in 1988-89. **EXHIBIT 14.1** which follows indicates the special warrants issued over the last seven years.

EXHIBIT 14.1
SPECIAL WARRANTS



15. PENSION FUNDS

BACKGROUND

15.1 Teachers, employees of the Province, and Members of the Legislative Assembly are entitled to receive pension benefits pursuant to provisions of the Teachers' Superannuation Act, the Civil Service Superannuation Act, and the Legislative Assembly Retirement Allowance Act. The employers and members of each fund make contributions; investment income is credited to the fund; and payments to pensioners and terminating members are charged to the fund. The fund investments are managed by investment managers external to government.

RESULTS IN BRIEF

15.2 Actuarial valuations of the Teachers' Superannuation Fund, the Civil Service Superannuation Fund and the MLA Pension Fund report substantial unfunded liabilities for accrued pension benefits. Future funding requirements need to be addressed.

AUDIT SCOPE

15.3 In accordance with Section 13 of the Audit Act, we performed audits of the Civil Service Superannuation and MLA Pension Funds for the year ended March 31, 1990 and of the Teachers' Superannuation Fund for the year ended June 30, 1990.

PRINCIPAL FINDINGS

Unfunded Liabilities

15.4 The unfunded liabilities of the pension funds have increased substantially. An actuarial valuation of the Civil Service Superannuation Fund as of April 1, 1990 reported an unfunded liability of $107 million. The previous actuarial valuation at April 1, 1987 reported an unfunded liability of $63 million.

15.5 An actuarial valuation of the MLA Pension Fund as of April 1, 1990 reported an unfunded liability of $9.6 million. At April 1, 1987, the previous actuarial valuation date, the unfunded liability was $5 million.

15.6 The actuarial valuation of the Teachers' Superannuation Fund as of July 1, 1990 has not been completed. An actuarial valuation as of July 1, 1987 reported an unfunded liability of $128.9 million. We anticipate that the unfunded liability at July 1, 1990 will be considerably higher.

15.7 The section of this report on the Public Accounts elaborates on the unfunded liability issue in greater detail.

15.8 According to legislation, payments out of the Teachers' Superannuation Fund and Civil Service Superannuation Fund are guaranteed by the Province. The Legislative Assembly Retirement Allowance Act provides for appropriations to be made from the Consolidated Fund to defray costs of pensions under the Act.

Financial Statements of the Pension Funds

15.9 The Canadian Institute of Chartered Accountants has recently issued standards for the measurement, presentation, and disclosure of pension plans. Presently, the Province is following several of the recommendations and others will be considered.

Teachers' Superannuation Fund

15.10 Contributions to the Teachers' Superannuation Fund through buy backs and those collected from employees of the PEI Teachers' Federation were not calculated in the manner outlined in the Teachers' Superannuation Act. Contributions collected were less than those required under the Act.

15.11 The increase given to pensioners effective July 1, 1990 was not in accordance with the Regulations of the Teachers' Superannuation Act. The calculation was not based on the twelve month period outlined in the Regulations.

15.12 Management fees are paid to the external managers of the Fund based on the market value of assets in the Fund. We observed differences between the two investment managers' definitions of the market value of assets.

15.13 We found several errors in the posting of monthly custodial reports to the general ledger. No reconciliation was done at year end between the final custodial year end report and the general ledger.

Civil Service Superannuation Fund

15.14 The Civil Service Superannuation Act provides for the transfer of pension contributions from a number of other pension plans. We noted some inconsistencies in the method of calculating transfers.

15.15 Improvements were noted in the accounting procedures and controls this year, however, some items pertaining to payables and receivables still require attention.

MLA Pension Fund

15.16 Section 16 of the Legislative Assembly Retirement Allowance Act states, *"All contributions and interest received under this Act shall be credited to the Fund and all payments and allowances and refunds and interest are a charge against the Fund."* A refund of contributions was paid by the Province and was not charged against the Fund.

15.17 Section 21 of the Legislative Assembly Retirement Allowance Act requires that a report be tabled in the Legislature on the administration of the Act during the preceding fiscal year including a statement showing the amounts paid out of the MLA Pension Fund during that year and the number of persons receiving benefits under the Act. This report was not tabled in 1990.

RECOMMENDATIONS

15.18 The new accounting standards for pension plans should be reviewed and consideration should be given to implementing them in 1991.

15.19 Contributions to the Teachers' Superannuation Fund should be calculated in accordance with the Teachers' Superannuation Act.

15.20 Annual pension increases should adhere to the Teachers' Superannuation Fund Act and Regulations.

15.21 The calculation of management fees paid to investment managers should be investigated.

15.22 Monthly transactions of the Teachers' Superannuation Fund should be accurately recorded, and at year end the custodial reports should be reconciled to the general ledger.

15.23 The method of calculating transfers to the Civil Service Superannuation Fund should be documented and applied on a consistent basis.

15.24 The provisions of the Legislative Assembly Retirement Allowance Act pertaining to refunds and annual reporting to the Legislature should be followed.

MANAGEMENT RESPONSE

15.25 We received a positive response from the Teacher's Superannuation Commission.

15.26 The Department of Finance responded positively to our concerns raised on the Civil Service Superannuation Fund and the MLA Pension Fund.

16. PEI GRAIN ELEVATORS CORPORATION

BACKGROUND

16.1 The Corporation was established under the Grain Elevators Corporation Act. There are three elevators located at Roseneath, Elmsdale, and Kensington which also serves as the head office.

16.2 The objectives of the Corporation as stated in the Act are:

. to stimulate feed grain production in the Province;
. to bring uniformity to the industry through marketing of grain produced in the Province;
. to provide facilities for the central marketing, drying, and storage of grain; and
. to provide distribution outlets for grain producers, livestock feeders, and the feed industry.

RESULTS IN BRIEF

16.3 Even with substantial input in recent years from the Province, the Corporation continues to incur losses.

16.4 Our review of travel matters and management practices at the Corporation raised several questions requiring the attention of the Minister of Agriculture and the Board of Directors.

16.5 Increased efforts are required in the collection and monitoring of receivables.

16.6 Excess inventories are resulting in substantial financing costs and contributing to the net loss of the Corporation.

16.7 Personnel management practices of the Corporation need to be strengthened.

AUDIT SCOPE

16.8 A financial statement audit was performed for the year ended March 31, 1990. In addition, we responded to a specific request from the Minister of Agriculture to review concerns raised about travel expenses and other management practices at the Corporation.

PRINCIPAL FINDINGS

Financial Condition

16.9 Sales for the year were $2.7 million and the Corporation showed a net loss of $306,000 after including the provincial operating grant of $195,200. The Corporation utilizes facilities provided by the Province at no charge to the Corporation. Over the last three years, the Province has appropriated $1,582,000 directly to the Corporation and has appropriated another $411,000 through the Department of Transportation and Public Works on behalf of the Corporation.

Minister's Request

16.10 At the request of the Minister of Agriculture, a meeting was held to discuss the concerns raised by a Review Committee of the Corporation concerning the duties and activities of the General Manager. We agreed to follow up these concerns as part of our financial audit for the year ended March 31, 1990. The results of this follow-up were forwarded to the Minister of Agriculture in a letter dated May 22, 1990. In that letter, we raised concerns about the existing management relationships, travel policies and expenses, and advances to employees.

16.11 As a result of this letter, the Minister appointed a committee to recommend a course of action to the Board of Directors. A report dated June 8, 1990 provided the Board with the conclusions and recommendations of the Committee.

16.12 The report agreed with our findings and contained a number of recommendations on travel matters pertaining to the General Manager and the management of the Corporation. This report and our letter to the Minister were subsequently made public by the Minister.

Collection of Receivables

16.13 The following information on accounts receivable was compiled for comparative purposes:

	March 31 1990	March 31 1989	March 31 1988
Sales	$2,701,400	$4,062,400	$2,672,100
Accounts receivable	$528,000	$520,200	$342,100
Value of accounts over 60 days past due	$188,100	$108,000	$82,840
Percentage of total	36%	21%	24%
Value of accounts considered doubtful	$89,600	$19,900	$27,550
Percentage of total	17%	4%	8%

This information suggests more attention is required in the collection and monitoring of accounts receivable. The Corporation does not have policies on credit granting and collections. Such policies are necessary to reduce the risk associated with credit sales. The Board has advised that priority will be given to establishing credit and collection policies.

Inventory Levels

16.14 During 1989-90 lower sales and increased purchases, made possible by additional storage facilities, resulted in a major increase in inventory from 3,100 tonnes at March 31, 1989 to 11,300 tonnes at March 31, 1990.

16.15 The cost of financing inventory is significant. In 1989-90 the Corporation incurred $300,000 in interest charges, most of which relates to holding inventory. If demand for grain is low this year, the Corporation may be forced to reduce selling prices in the spring in an effort to have maximum storage capacity available for the next harvest. This may have a further adverse effect on the already weak financial condition of the Corporation.

Personnel Management

16.16 The Corporation does not have employment contracts with the three elevator managers. Since these employees are non-unionized, the existing collective agreement is not applicable. Currently, the terms of employment of these employees are not clearly defined and documented.

16.17 Written performance evaluations for the three elevator managers and other employees are not prepared. Conducting employee evaluations is an important part of personnel management and provides additional protection for both employees and the Corporation in the event of a dispute.

16.18 Timesheets for hourly employees are not signed or initialled before being sent to the bank for processing. Any document authorizing payment of Corporation funds should be properly approved.

RECOMMENDATIONS

16.19 The Corporation should establish, in consultation with the Province, a course of action to minimize losses and place limits on the future financial exposure of the Province.

16.20 Policies for credit granting and collections should be established, documented, and implemented as soon as possible.

16.21 The Corporation should ensure that documented terms of employment exist for all employees.

16.22 Regular performance evaluations should be completed with all employees and all payroll documents should be properly approved.

CORPORATION RESPONSE

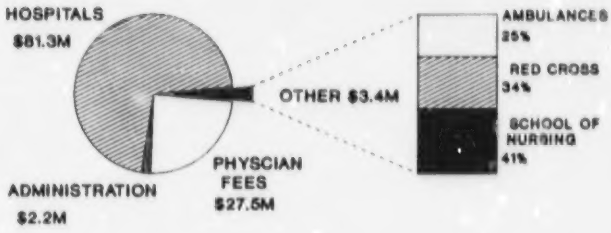
16.23 Management has agreed with our observations and recommendations and is in the process of dealing with the issues raised.

17. HOSPITAL AND HEALTH SERVICES COMMISSION

BACKGROUND

17.1 The Hospital and Health Services Commission is responsible for administration of the Hospital and Diagnostic Services Insurance Act and the Health Services Payment Act. Expenditures of the Commission amounted to $114.4 million in the fiscal year 1989-90. This represents an expenditure of approximately $875 per resident of Prince Edward Island. **Exhibit 17.1** shows a breakdown of the Commission's expenditures.

EXHIBIT 17.1
COMMISSION EXPENDITURES
1989-90



RESULTS IN BRIEF

17.2 The computerized medical payment system is deficient and does not maintain a complete record of paid claims required for verification and follow up.

17.3 The systems and procedures for processing medical payments contain control weaknesses and need significant improvement.

17.4 Controls over cheque issuance and reconciliation are inadequate.

17.5 Controls over changes to accounting records and payroll transactions require improvement.

AUDIT SCOPE

17.6 A financial statement audit was conducted in accordance with Section 10 of the Hospital and Health Services Commission Act.

PRINCIPAL FINDINGS

Medical Payment System

17.7 A deficiency in the computerized medical payment system resulted in incomplete payment records. Due to this problem, the Commission was unable to provide a complete record of the medical claims that made up several cheque amounts. In the event of disputed amounts, the Commission may be unable to provide evidence that a claim was paid, and no record exists for management and audit purposes.

17.8 In addition, because of this missing information some management reports may contain incomplete information. This affects the reliability of management reports and the decisions made based on those reports.

17.9 A computer processing problem resulted in a number of duplicate payments. Upon receiving reports of duplicate payments from physicians, the Commission identified the claims paid twice and deducted the amounts from subsequent payments. Commission staff have indicated that 60 claims totalling approximately $1,500 were involved.

17.10 In another instance, a fee amount of $82.25 was entered as $82,025 and the computer generated a cheque which included this amount. The payment system has no controls to prevent payment of fee code amounts of this magnitude, however, the resulting overpayment was detected prior to issuance of the cheque. To compound the problem, the payment detail report is not usually reviewed prior to cheques being issued and current procedures may not detect significant overpayments. The generation of the cheque and the potential for other errors of this nature are serious concerns.

17.11 The computer master files, containing fee amounts and related assessment rules against which payments are processed, must be updated annually to agree with the new memorandum of agreement with physicians. Occasionally other changes may be required during the year. These master file changes are not printed out and agreed to source documents nor otherwise controlled by use of control totals. These procedures would help to ensure the information was correctly entered. Errors in the initial entry of data to these files will result in payment errors every time a claim is processed against an erroneous fee code.

Control Over Cheques

17.12 Appropriate division of duties is basic to providing adequate financial controls. We found insufficient segregation of duties with respect to custody of cheques, recording of transactions, and the performance of bank reconciliations. The performance of these functions by one individual poses serious risks.

17.13 Four cheques were cashed by the bank although they had not been signed by the Commission. These cheques illustrate the potential for undetected errors.

17.14 A record is maintained of cheques put through the cheque writing machine, but it is not reviewed to account for all cheque numbers.

17.15 A cheque in excess of $96,000 has been outstanding since September 1989. Cheques that have been outstanding for abnormally long periods should be investigated to ensure responsibilities to satisfy legitimate claims are fulfilled.

Accounting Records

17.16 The computerized accounting package used by the Commission allows entries to be changed or deleted. The accounting package maintains a file of changed or deleted records, but this is not reviewed by supervisory personnel. The absence of authorization and review procedures on the use of this edit feature could allow errors or account manipulation to go undetected.

17.17 Most journal entries do not include adequate explanations and references to related entries and documents. This lack of an adequate management trail presents problems in reviewing accounting entries and could result in accounting errors.

Payroll

17.18 The Commission was not able to provide payroll transaction forms for two temporary employees, showing a record of their employment and rate of pay.

17.19 Required authorizations were not obtained for the extension of an acting position appointment and for extension of temporary employment beyond a six month period.

RECOMMENDATIONS

17.20 The Commission should have the computerized medical claims payment system modified to maintain a complete management and audit trail of all transactions including adjustments.

17.21 The Commission should introduce controls designed to prevent overpayments from occurring. Controls could include:

- reducing the computer field size defined for individual fee amounts;
- employing edits to restrict the maximum dollar value which may be entered;
- installing computer edits to check claim numbers being paid to claims already processed;
- reviewing cheque stub amounts for individual doctors; and
- reviewing and verifying high dollar transaction reports.

17.22 Changes to computerized master files should be verified in detail to the source documents. In addition they should be printed and reviewed on a regular basis by individuals who authorize file changes.

17.23 Immediate steps should be taken to adequately control the issuance of cheques including:

. segregation of duties between issuance of cheques and reconciliation of transactions in the accounting records;
. review of records by senior personnel to ensure number sequences account for all cheques;
. checking, by a second person, the details of cheques prior to issuance.

17.24 The explanation area on journal entry documents should be used to fully explain and document the nature of the entry including references to related entries and source documents. Changes to records through program edit features are in effect computerized journal entries and should also include adequate explanations.

17.25 Initial employment and changes in classifications should be supported by properly authorized payroll transaction forms.A copy should be maintained in the employee's personnel file.

MANAGEMENT RESPONSE

17.26 The Commission agreed with our findings and have indicated that action has been or will be taken on the recommendations.

18. PEI MUSEUM AND HERITAGE FOUNDATION

BACKGROUND

18.1 The Museum Act established the PEI Museum and Heritage Foundation. The Minister of Community and Cultural Affairs is responsible for the administration of the Museum Act while the work of the Museum is under the general direction of an appointed Board of Governors.

18.2 The purpose of the Museum is to study, collect, preserve, interpret, and protect the human and natural heritage of Prince Edward Island for the use, benefit, and enjoyment of the people of the Province. For the year ended March 31, 1990 the Museum incurred expenditures of $930,000.

RESULTS IN BRIEF

18.3 A condition of a special warrant provided by the Province was not adhered to.

18.4 Controls over purchases and payments need to be strengthened.

18.5 There was inadequate documentation on the budget and approved expenditures of the Endowment Trust Fund.

18.6 Improvements are needed in the administration of the book publishing activity.

AUDIT SCOPE

18.7 A financial statement audit was conducted for the year ended March 31, 1990 under the authority of Section 13 of the Audit Act.

PRINCIPAL FINDINGS

Special Warrant

18.8 A special warrant of $33,600 was approved on February 15, 1990 to increase the salary account for wages funded by Federal government projects. This warrant was on the condition that the money be repaid to the Province prior to March 31, 1990. The total warrant was not repaid to the Province as of March 31, 1990 because funds received by the Museum from the Federal projects were spent on other activities of the Museum. Arrangements have been made to repay the money.

Payments

18.9 We noted that two payments out of our sample were made without supporting documentation, one of which resulted in a duplicate payment.

18.10 We also noted two instances where purchases were made by the Museum without properly authorized purchase orders.

18.11 The Museum requires two signing officers to sign all cheques. The purpose of having two signatures is to ensure that no one person is in a position to make unauthorized, erroneous, or fraudulent payments. During our audit, we noted that several cheques were issued and cashed without proper signatures.

Endowment Trust Fund

18.12 Minutes of the June 1989 meeting of trustees were not prepared, documenting approval of the 1989-90 budget of the Endowment Trust Fund. Documentation of the decisions of the trustees is important to ensure compliance with the Fund agreement.

Book Publishing

18.13 The Museum's Publishing Committee requires that all books be authorized before publication. We noted that the Museum published a book during the year without receiving authorization from the Publishing Committee.

18.14 The Museum published two books during the year where all direct publishing costs were funded by a third party and profits paid to them; however, there was no provision made for the indirect costs incurred by the Museum.

RECOMMENDATIONS

18.15 Special warrants received for specific purposes should be used for that purpose only, and all conditions of payment should be adhered to.

18.16 Payments should not be made unless they are properly supported and approved and all purchase orders should be properly authorized.

18.17 All cheques issued should be properly completed and signed.

18.18 Minutes of trustees' meetings of the Endowment Fund should be documented and approved.

18.19 Books published by the Museum should be approved by the Publishing Committee and include both direct and indirect costs.

MANAGEMENT RESPONSE

18.20 Management has responded to our recommendations and has agreed to take action on the outstanding items.

19. BASIN HEAD FISHERIES MUSEUM

BACKGROUND

19.1 Basin Head Fisheries Museum was established under Part II of the Companies Act. The objects of incorporation include:

- to promote, organize, operate, and manage the fisheries museum at Basin Head; and
- to engage in all matters relating to fisheries, and to collect and disseminate information regarding the history of the fishing industry.

19.2 The Corporation also operates the Elmira Station Railway Museum and a saltbox factory located adjacent to the fisheries museum.

19.3 The Corporation receives annual operating grants of approximately $60,000 through the PEI Museum and Heritage Foundation from the Department of Community and Cultural Affairs.

RESULTS IN BRIEF

19.4 The Corporation's bylaw provisions concerning appointment of the Board of Directors and Executive Officers have not been met.

19.5 There is no agreement establishing accountability for operating grants the Corporation receives as required under the Museum Act.

19.6 There were serious deficiencies in the Corporation's accounting records and internal controls.

AUDIT SCOPE

19.7 We were requested by the Deputy Minister of Community and Cultural Affairs to examine the Corporation's books of account and financial transactions.

19.8 Our management letter, accompanied by an unaudited schedule of receipts and disbursements for the ten month period ended January 31, 1990 was sent to the Department of Community and Cultural Affairs in March 1990.

PRINCIPAL FINDINGS

Board of Directors

19.9 The Corporation's bylaws require a Board of nine directors, and an Executive consisting of a president, vice-president, secretary, and treasurer. There are only seven directors, and there is no vice-president, secretary, or treasurer. Minutes of meetings held by the Board of Directors have not been prepared.

Operating Agreement

19.10 The agreement between the Corporation and the PEI Museum and Heritage Foundation expired March 31, 1986. That agreement required the Corporation to operate the fisheries museum at Basin Head and the railway museum at Elmira in return for annual operating grants from the Foundation. The grants were to be based on the Corporation's financial projections and annual audited financial statements.

19.11 Total grants received by the Corporation from the Foundation during the four years ending March 31, 1990 totalled $219,600.

19.12 In the absence of an operating agreement, the relationship between the Corporation and the Foundation, and the responsibilities of each, are left open to interpretation.

Financial Recording and Reporting

19.13 Financial statements were not prepared by the Corporation for audit. The accounting records were deficient, and internal control was not adequate.

19.14 The following improvements are required to maintain proper accounting records:

. staff training sufficient to enable the proper keeping of accounting records;
. monthly reconciliation of bank statements to the general ledger cash account;
. annual reconciliation of the general ledger inventory account to a physical inventory count; and
. approval of authorized cheque signing procedures.

RECOMMENDATIONS

19.15 The Corporation should ensure that its bylaw provisions concerning appointment of the Board of Directors and Executive Officers are met.

19.16 The Corporation should maintain a minute book for all general members' meetings and Board meetings. The minutes should be signed by the president and secretary.

19.17 The PEI Museum and Heritage Foundation should enter into an agreement with the Corporation if annual operating grants are to continue. The agreement should set out the objectives of the grants, the conditions to be met and all financial and performance reporting requirements.

19.18 The Corporation should be required to provide audited financial statements.

DEPARTMENTAL RESPONSE

19.19 The Department advised that the Corporation and the PEI Museum and Heritage Foundation will both be instructed to implement our recommendations.

20. PEI LAND DEVELOPMENT CORPORATION

BACKGROUND

20.1 The PEI Land Development Corporation was established in 1969. The overall objective of the Corporation was to assist efficient farm land reorganization. The principle activities included the sale or lease of farm lands to farmers and the financing of capital improvements. Mortgage financing was also provided.

20.2 At March 31, 1990, the Corporation had virtually all of its $34.8 million in assets invested in farms of which $26.3 million was leased properties. Expenditures for the year totalled $4.3 million including $3.3 million in interest. Expenditures of $1.2 million were covered by a provincial appropriation.

20.3 At March 31, 1990, the Corporation had title to approximately 50,000 acres of farm properties, of which 42,000 acres were leased, and 8,000 acres were available for sale or lease. Farms lands under the Corporation's control at March 31, 1990 represented an estimated 7.5 percent of the total farm properties in the Province.

20.4 The PEI Land Development Corporation and the PEI Crop Insurance Agency were amalgamated on July 1, 1990 and the new Corporation is called the PEI Agricultural Development Corporation.

RESULTS IN BRIEF

20.5 Some management agreements between the Department of Agriculture, the Corporation, and clients are not effectively monitored.

20.6 Weaknesses still exist in the control and collection of accounts receivable.

20.7 Land use is not sufficiently monitored on expired leases and the land inventory system requires improvement.

20.8 The monthly financial statements are not prepared from up-to-date information and are of limited use.

AUDIT SCOPE

20.9 We performed a financial audit for the year ended March 31, 1990 in accordance with Section 13 of the Audit Act.

PRINCIPAL FINDINGS

Management Agreements 20.10 Some management agreements, used to monitor high risk clients, are not being adhered to. The agreements are a requirement of the Lease Back to

Vendor Program, and the Board has also made them a requirement for several new applications. The agreements which are between the farmer, the Corporation, and the Department of Agriculture, require farm visits by a Department of Agriculture representative. Reports of these visits and other financial reporting is also required.

20.11 Our review indicated problems with the frequency of farm visits as required by the management agreement, and uncertainty over the responsibility for monitoring and enforcing the management agreements. We also noted differences in the extent of reporting on farm visits.

Accounts Receivable Administration, Billings, and Collections

20.12 Controls to ensure that all billings are made when due are inadequate. Most billings for leases, mortgages, and agreements of sale are due March 31, however, an increasing number are coming due throughout the year. Billings are prepared from a file of cards which may be incomplete because cards are removed and used by non-accounting staff. We could find no evidence of regular billings for mortgages and agreements of sale, as no copies of these billings are retained.

20.13 Reporting of accounts in arrears is not adequate. Effective monitoring of amounts due to the Corporation requires the timely preparation of accounts in arrears listings. They are not regularly prepared for mortgages and agreements of sale, and although reports are produced monthly for leases, a review of other information is normally required to adequately analyze the account. It was also noted that the March 1990 report was inaccurate.

20.14 Collection procedures are not always followed for overdue accounts. Clients who do not meet commitments for payment of arrears, are not dealt with in accordance with the collection procedures.

20.15 The Corporation has introduced, during the year, new policies concerning accounts in arrears, expired leases, and collections for new clients, which will address some of the findings noted above. The Corporation also expects that the introduction of changes to the management information system will enhance the ability to address these issues.

Land Inventory

20.16 Some leases expire with no specific agreement to renew or extend on a short-term basis and there are no procedures in place to ensure that the land is not being used.

20.17 The accuracy of the land inventory reports is not verified on a timely basis. Input is not reviewed, and the output is not compared to the accounting records on a regular basis. A review performed to December 31, 1989 resulted in numerous corrections to the reports.

Reimbursement of Expenses paid by Corporation

20.18 The Corporation pays certain expenses on behalf of clients which are to be recovered by the Corporation. Amounts owing to the Corporation are not properly recorded and monitored.

Preparation of Monthly Financial Statements

20.19 The Corporation uses estimated revenue figures instead of actual revenue in preparing monthly financial statements. These statements are used by management and the Board of Directors in assessing the Corporation's performance during the year. Because estimates of revenues and certain expenses are not revised throughout the year, the monthly financial statements are not accurate.

20.20 An estimate is established for bad debts and property write-offs for budget purposes. These figures are not revised to reflect actual experience when preparing quarterly forecasts and monthly financial reports.

RECOMMENDATIONS

20.21 A standard report format or checklist should be developed for farm visits and these visits should be made as required by the management agreement.

20.22 All billings should be made when due, reports of accounts in arrears should be prepared on a regular basis, and the collection procedures of the Corporation should be followed.

20.23 Vacant land should be monitored on an on-going basis, and the land inventory system should have controls in place to ensure it is complete and accurate.

20.24 All amounts paid on behalf of clients should be properly recorded and monitored for subsequent collection.

20.25 Monthly financial statements should be based on actual experience and the revenue and expense estimates should be revised on a timely basis.

CORPORATION RESPONSE

20.26 Management agreed with our observations and recommendations and intends to take corrective action.

21. CHARLOTTETOWN VETERINARY CLINIC

BACKGROUND

21.1 For the year ended March 31, 1990, the Charlottetown Veterinary Clinic had an operating loss of $185,000. This loss was appropriated by the Province.

21.2 The Crown Building Corporation purchased the Veterinary Clinic in October 1987 to provide a caseload for the college. A Coordinating Committee comprised of veterinarians from the Charlottetown Veterinary Clinic and the Atlantic Veterinary College coordinates caseload requirements and the transfer of clients from the Charlottetown Veterinary Clinic to the Atlantic Veterinary College.

AUDIT SCOPE

21.3 In accordance with Section 13 of the Audit Act, we performed an audit of the Charlottetown Veterinary Clinic for the year ended March 31, 1990.

PRINCIPAL FINDINGS

Overpayments to Employees

21.4 According to the terms of the employment agreement, a maximum amount for employee salary and benefits was established. A review of payroll records showed the clinic actually paid, over the last three years, $8,000 in excess of the terms stated in the employment agreement. The payroll is processed by an outside firm.

21.5 As part of our previous audit for the year ended March 31, 1989, we issued a management letter recommending that salary and benefit payments be reconciled annually to the employment contracts. If this recommendation had been implemented, the overpayments would have been detected.

21.6 We were advised that the Clinic and the outside firm have resolved the problem and the overpayment will be collected.

Discounts on Sales Over the Counter

21.7 Discounts are frequently given on sales to regular customers but since no formal policy exists, the staff working at the counter decide which customers receive discounts. A formal policy would ensure consistent customer service and ensure the practice of discounts is acceptable to the Clinic.

Credit Adjustments 21.8 Credit adjustments are not signed or initialled by senior management. Proper controls require that the responsibility for adjusting customer accounts be segregated from the handling of cash receipts.

RECOMMENDATIONS

21.9 Total payments to employees should be reconciled annually to the employment contracts.

21.10 Management should establish a formal policy for discounts.

21.11 Credit invoices should be prepared and approved for all accounts receivable credit adjustments.

MANAGEMENT RESPONSE

21.12 Management agreed with our concerns and has taken action to correct the problems raised.

IMPLEMENTATION OF PREVIOUS RECOMMENDATIONS

22. IMPLEMENTATION OF PREVIOUS RECOMMENDATIONS

INTRODUCTION

22.1 Many of our audits include recommendations for improvement. We recognize other alternative courses of action can be taken. However, it is necessary to follow up on our recommendations to ensure that the underlying problems are receiving the attention they deserve. This section is a summary of past recommendations and the action which has been taken by those responsible for implementation.

22.2 Because our recommendations to Treasury Board are relatively few in number and deal with policy or government-wide issues of importance, we have been able to list most of them individually. Our audit reports to departments and agencies usually contain a large number of recommendations. These have been dealt with in summary fashion.

22.3 How quickly recommendations are acted on depends upon many factors. Sometimes action is postponed for valid reasons. In all cases, we intend to follow through until the problems identified have been dealt with in a satisfactory manner.

23. RECOMMENDATIONS TO TREASURY BOARD

23.1 Under the Financial Administration Act, Treasury Board has a number of responsibilities including preparation of the Budget Estimates, administration of the public service, and financial management.

23.2 Each year during the course of our audits, we encounter matters affecting these responsibilities that require decisions and direction from Treasury Board. The purpose of this section is to follow up on recommendations until they have been dealt with satisfactorily. Following are the outstanding recommendations.

Recommendations	**Comments**
Suitable accountability requirements for transfer payment recipients. (Section 4, February 1990)	Treasury Board staff advised this matter will be brought before Treasury Board as part of a total package of administrative policies this year. This topic is also to be considered by the Cabinet Committee on Government Reform.
Program Performance Reviews (Section 5, February 1990)	The Cabinet Committee on Government Reform intends to examine programs with a view to improving efficiency and productivity, ensuring the relevancy of programs and eliminating any duplications.
Telephone costs (Section 19, 1990)	The Department of Transportation and Public Works is working on guidelines and procedures for monitoring and managing telephone costs. Further, the installation of an Island-wide voice network is being considered to reduce long distance costs. A billing format to allow better analysis of phone traffic is also being developed by the Department.
A policy on fraud awareness and reporting. (Section 2, 31 March 1988)	A draft policy has been prepared and is currently under review by a committee of senior government officials. It is expected that the policy will be submitted to Treasury Board for consideration in the near future.

Recommendations	Comments
A code of conduct for public servants. (Section 3, 31 March 1988)	Guidelines were prepared last year by the Civil Service Commission and circulated to departments for comment, but no further action has been taken to approve and implement them.
Requirements, timing, and content of departmental annual reports. (Section 2, 31 March 1987)	A draft policy was prepared last year but has not yet been approved by Executive Council.
Management and control of inventories. (Section 5, 31 March 1987)	Preliminary work has been done, but the project is not yet complete. This project requires greater emphasis to correct the serious control deficiencies disclosed in our report.
Management and control of professional services. (Section 9, 31 March 1987)	A proposed policy will be submitted to Treasury Board for consideration in the immediate future.

24. RECOMMENDATIONS FROM PREVIOUS REPORTS

24.1 This section provides an update on the significant recommendations made to departments and agencies in previous reports. It includes only those audits not done on a regular basis.

24.2 In each case, we have contacted the appropriate department or agency and obtained information on the status of our recommendations. We limited our work to a review of this information to ensure it addresses the issues raised. In most cases, the specifics of implementation will be verified on our next audit.

LIQUID ASPHALT - 1990
SECTION 9

24.3 We have been advised by the Department of Transportation and Public Works that the following action has been taken on our recommendations:

. The Department has received the necessary information from other provinces to verify price calculations to ensure the lowest possible price is paid for liquid asphalt.

. The Department is now satisfied that the applicable purchases from other suppliers are credited to the remaining purchase commitment with the main supplier. This helps ensure low prices are maintained because the price is based on quantities.

24.4 We are satisfied with the action taken on our recommendations.

POTATO DISEASE
CONTROL - 1990
SECTION 10

24.5 We have been advised by the Department of Agriculture that the following action has been taken on our recommendations:

. A formal contract between the Department and the PEI Potato Board for the effective administration and enforcement of the Plant Disease Eradication Act has been finalized. This contract requires that legislated inspection requirements are met, that contraventions of the Act are dealt with according to the legislation, and that the Potato Seed Incentive Program is administered in accordance with the Regulations.

. Agriculture Canada inspectors are relied upon for crop inspections, however there still is no formal agreement with Agriculture Canada to ensure that the legislated potato disease control requirements are met.

. The hours of operations of the Borden scalehouse are established in keeping with the resources of the Department of Transportation and Public Works, and it is not expected that the scalehouse will be operated 24 hours a day, seven days a week. The Department of Agriculture will explore other avenues to ensure that vehicles transporting potatoes are disinfected.

24.6 We will continue to monitor the status of our recommendations.

EXTENSION SERVICES - 1990, SECTION 11

24.7 We have been advised by the Department of Agriculture that the following action has been taken on our recommendations:

. The Department has identified the role of district office staff after carrying out an extensive survey of various agricultural and related groups. The communication of this role to staff, clients, and the public is not complete but a communications plan will follow shortly.

. Efforts are underway to assist specialists and district staff in understanding the respective roles of each other.

. All branches have been reminded of the importance of information communication within the Department. Staff will be consulted about projects or programs prior to public announcement. All significant projects or programs will have a communication plan to ensure effective information transfer to staff, clients, and the public.

. An improved plan to ensure effective development of computer applications and utilization of district office computers is being developed. All computerized client information is now password protected.

. Staff will now limit their involvement to financial management training and analysis without being involved in the actual preparation or presentation of loan applications.

. A uniform time keeping system has been implemented and staff report on a monthly basis.

24.8 We are satisfied with the action taken on our recommendations.

LIMESTONE INCENTIVE PROGRAM - 1990 SECTION 12

24.9 We have been advised by the Department of Agriculture that the following action has been taken on our recommendations:

. Determining the effectiveness of the program requires a monitoring infrastructure which does not exist. A cursory analysis of information provided by the Department indicates that limestone purchases have not, on average, changed significantly, nor has there been a significant decrease in acidity levels of soil samples tested by the Department since the start of the program in 1978.

. Original invoices are now required as proof of purchase before an application for program assistance is processed for payment. This, in our opinion, is a significant improvement in internal control.

. The Department has changed the program application forms, to include applicant certification of claims, and to provide for contacting suppliers to verify documentation supporting the claims.

. The program application form now indicates that the maximum eligibility per annum for a single applicant is 180 tonnes, and partnerships and incorporated farms may be eligible for a multiple of this maximum pending verification of partnership or incorporated status.

24.10 We are satisfied with the action taken on our recommendations.

PROVINCIAL LIBRARY - 1990, SECTION 13

24.11 We have been advised by the Department of Community and Cultural Affairs that the following action has been taken on our recommendations:

. The Department is in the process of reviewing the operations of the Provincial Library to address the concerns in our audit report. The Bookmobile Service and the Branch Library Service have been reviewed and a report submitted to the Rural Development Board has been approved. The report will be submitted to Cabinet.

. The Department has hired a consultant to conduct a study on the automation of the library system which includes the current microfiche system.

. The Department has seconded a staff person to review the operation of the Government Services Library.

. An advisory committee to review the mandate and operations of the Confederation Centre has been established, which will also review the role of the Confederation Centre Library.

24.12 We will continue to monitor action taken on our recommendations.

HIGHWAY SAFETY DIVISION - 1990 SECTION 14

24.13 We have been advised by the Department of Transportation and Public Works that the following action has been taken on our recommendations:

. Whenever adjustments are required to balance the daily cash receipts, they are now documented. A request has been made to Computer Services Division to make the necessary changes to the transaction history file to reduce the need for these adjustments.

. An error log is now used to record any errors resulting from problems.

. All highway safety enforcement officers have completed training in the Dangerous Goods Act, Highway Traffic Act, and the Roads Act. They have all been designated under these acts as inspectors and peace officers.

. Recently, a review of the programs of the Division and various methods of testing the knowledge level of participants has been undertaken to assess the effectiveness of driver training programs.

24.14 We are satisfied with the action taken on our recommendations.

COMMUNITY ECONOMIC DEVELOPMENT PROGRAM - 1990 SECTION 15

24.15 We have been advised by the Department of Community and Cultural Affairs that the following action has been taken on our recommendations:

. Individual project evaluation review reports which give a clear picture of the results achieved are prepared for each project.

. The terms and conditions of the program are now contained in a formal letter of offer which is to be signed by the applicant.

. A policy on rebate advances has been approved and added to the program management manual.

24.16 We are satisfied with the action taken on our recommendations.

SMALL BUSINESS ENHANCEMENT PROGRAM - 1990 SECTION 16

24.17 We have been advised by the Department of Industry that the following action has been taken on our recommendations:

- Program policy guidelines have been updated by staff and will be forwarded to the Minister for approval.
- Corrective action has been taken to ensure inspection reports are signed by the inspecting officers and maintained on file.
- The program objectives, activities, and the results expected are now defined. Information on actual jobs created will be utilized to perform a detailed evaluation of the program.

24.18 We are satisfied with the action taken on our recommendations.

SPECIAL COMMUNITY DEVELOPMENT PROGRAM - 1990 SECTION 17

24.19 We have been advised by the Department of Industry that the following action has been taken on our recommendations:

- In the event that exceptions are made to established policies, the reasons will be documented.
- New application forms are being developed to clearly identify sources of funding. Program guidelines have been approved which set out the available program assistance.
- Application forms and letters of offer and acceptance are now used as part of the program documentation.
- Currently, all applications are reviewed by eastern and western advisory boards who make recommendations to the Minister based on regional priorities.
- Area industrial commissions submit their budget and objectives to the department on an annual basis.
- The Policy and Planning Division will identify program evaluation criteria to be used when conducting future program evaluations.

24.20 We are satisfied with the action taken on our recommendations.

VITAL STATISTICS - 1990, SECTION 18

24.21 We have been advised by the Department of Health and Social Services that the following action has been taken on our recommendations:

- In order to ensure confidentiality of information, all organizations now specify individuals who are authorized to receive information. All such individuals, including provincial government employees, must complete the oath of secrecy required under the act. All information disbursed by Vital Statistics is marked confidential.
- Cash receipts are stored in a locked cash drawer within the vault and bank deposits are made on a timely basis.

24.22 We are satisfied with the action taken on our recommendations.

CROWN ATTORNEY'S DIVISION 1987-88 SECTION 10

24.23 We have been advised by the Department of Justice that the following action has been taken on our recommendations:

- Progress has been made by the Division in adopting our recommendations. The Department believes that most of our recommendations have been acted upon and agrees with all of them.
- Our recommendation to summarize and report activities of the Division in the Department's annual report to the Legislature has not been addressed.

24.24 We will follow up on the recommendations during our next audit.

PEI HOUSING CORPORATION 1987-88 SECTION 13

24.25 We were advised by the General Manager that a consultant's report dealing with our recommendations on current and future housing needs, a strategic plan, staffing requirements, and organization structure has been received. However, it has not yet received the appropriate consideration and discussion by the Corporation.

24.26 We were also advised that the Corporation has taken only preliminary action on our recommendations dealing with an operational plan, preventative maintenance procedures, a reporting system to monitor staff activities, performance goals and land acquisition procedures.

24.27 We will follow up further on our recommendations this year.

ADDICTION SERVICES OF P.E.I. 1987-88 SECTION 14

24.28 We have been advised by Addiction Services that the following action has been taken on our recommendations:

- Much has been done to clarify the authority, responsibility, and accountability of the three County Boards. The Director has established regular contact with the County Boards and their Directors. The County Boards are responsible for the day-to-day operation of the programs. The accountability process for each County Board will consist of regular meetings between the Directors of each Board and the Director of Addiction Services.
- A process is being developed to improve the documentation and quality control of each program so that they will be continuously monitored and evaluated. The management reporting mechanisms by each County Board will be standardized for all the contracted programs.
- Each of the programs will be reviewed by the County Directors and the Director of Addiction Services and an operational plan agreeable to the County Boards and Addiction Services will be developed.

24.29 We are satisfied with the action taken on our recommendations.

DRUG COST ASSISTANCE PROGRAM 1987-88
SECTION 25

24.30 We have been advised by the Department of Health and Social Services that the following action has been taken on our recommendations:

. A method to verify applicants' ages for eligibility has been developed.
. A procedure to check a number of prescriptions for quantities prescribed and dispensed has been implemented.
. A direct audit system for seniors has been considered but cost and administrator uncertainty have delayed implementation.

24.31 We will follow up further on the recommendations during our next audit.

PEI LIQUOR CONTROL COMMISSION 1986-87
SECTION 7

24.32 We have been advised by the Liquor Control Commission that the following action has been taken on our recommendations:

. A more formalized planning procedure is being implemented.
. Staffing standards have not been developed, however, each store is being considered on its own conditions.
. Inventory turnover is improving.

24.33 We will follow up on the recommendations during our next audit.

OFFICE OF THE AUDITOR GENERAL

25. OFFICE OF THE AUDITOR GENERAL

MANDATE

25.1 The Auditor General is a servant of the Legislative Assembly, independent of government and responsible for the audit of government administration within the provisions of the Audit Act.

25.2 The Auditor General's function is a vital part of the legislative framework that exists to hold the administration accountable for their stewardship of public funds.

RESPONSIBILITIES

25.3 The responsibilities of the Auditor General are set out in the Audit Act. The primary responsibility is the audit of the Public Accounts of the Province. This includes an objective examination of the accounts and records pertaining to the receipt and disbursement of public funds. In addition, the Auditor General is responsible for the audit of certain Crown corporations under statute as well as those not subject to financial audit by other auditors.

25.4 The Auditor General is also responsible to conduct any audit or examination he considers necessary to determine whether any agency of government is achieving its purpose and is doing so economically and efficiently. The number of audits is limited by staff resources available, but on a cyclical basis, significant audit coverage can be achieved in most departments and agencies.

AUDIT PROCESS

25.5 Audits of the Province's Public Accounts and other financial statement audits are performed in accordance with the standards of the Canadian Institute of Chartered Accountants. These standards relate to the professional qualifications of auditors, minimum examination requirements, and reporting responsibilities.

25.6 The handbook which contains the Recommendations of the Accounting Standards Committee and the Auditing Standards Committee of the CICA, is the principle source of generally accepted accounting principles and generally accepted auditing standards in Canada.

25.7 In addition, we are guided by the statements issued by the Public Sector Accounting and Auditing Committee of the CICA. These statements contain accounting and auditing recommendations applicable to government.

25.8 Audit work on government departments and programs pertaining to the economic and efficient achievement of objectives is performed based on state of the art methodologies evolving primarily from the Canadian Comprehensive Auditing Foundation and other legislative audit offices.

25.9 We are always striving to make our audits more effective and efficient, while maintaining our professional standards of examination and reporting.

OFFICE ADMINISTRATION

25.10 Under the Audit Act, the Legislative Audit Committee, a standing committee of the Legislative Assembly is responsible for the administration of the office. The Committee consists of the Speaker, who is Chairman, the Leader of the Opposition, and the Minister of Finance.

25.11 The main functions of the Committee are clearly defined in the Act and ensure the office's operations and resources are determined independent from government. The Committee continues to work effectively in this role and is supportive of the office.

25.12 The annual budget for the office is submitted to this Committee for review. The Committee submits their recommended budget for the approval of the Lieutenant Governor-in-Council. It is then laid before the Legislative Assembly with the other estimates for final approval.

25.13 The strategic overview of the office is reviewed and updated annually. It outlines not only strategic issues, but also a three-year plan, and a detailed operational work plan for the current year.

25.14 The office is subject to a practice inspection on a periodic basis by the Institute of Chartered Accountants of Prince Edward Island, which is responsible for the regulation of public accounting. The inspection process is designed to protect the public interest by ensuring this office meets the standards required by the profession. The office was inspected by the Institute last year and the practice inspector's report was a positive one.

ORGANIZATION AND STAFFING

25.15 The office consists of the Auditor General, 3 Audit Directors, 15 audit positions, 1 administrative position, and 1 secretarial position. Five of these positions are filled by university graduates who are studying and articling to attain their chartered accountant designation. One position is filled by a university graduate, studying in the certified management accounting program.

25.16 With the mandate provided in the Audit Act, there is no limit to the amount of work this office could be doing. On the other hand any additional work requires more staff which entails additional cost.

25.17 It is not possible, or financially practical to have the Auditor General attempt to audit all of government each year. Therefore, it is my intention to perform sufficient audit work to adequately cover government programs on a cyclical basis in addition to my annual audits of the Public Accounts and certain Crown Corporations.

PROFESSIONAL ACTIVITIES

25.18 The office is a sustaining member of the Canadian Comprehensive Auditing Foundation. The Foundation performs research and provides professional development courses, publications, and conferences to further the development of comprehensive audit methodology.

25.19 The office participates in the Conference of Legislative Auditors held annually which includes provincial legislative auditors and the Auditor General of Canada.

25.20 Members of the office participate in various meetings and serve on several committees jointly with representatives from other provincial audit offices and the Auditor General of Canada.

25.21 I am currently an associate of the Public Sector Accounting and Auditing Committee. The Committee was established by the Canadian Institute of Chartered Accountants to consider and render pronouncements on matters of public sector accounting and auditing theory and practice.

25.22 It is a very active committee and to date statements have been issued on major topics such as: standards of financial statement presentation for governments; defining the government reporting entity; accounting for employee pension obligations in government financial statements; accounting for government transfers; audit of financial statements in the public sector; auditing for compliance; value-for-money auditing standards; planning value-for-money audits; and knowledge of the audit entity in planning value-for-money audits.

25.23 An important professional relationship is also maintained with the Institute of Chartered Accountants of P.E.I., and the Canadian Institute of Chartered Accountants. Membership on various provincial and national committees helps ensure the office is kept abreast of important developments in the accounting profession.

SCHEDULES

ORDINARY EXPENDITURES
APPROPRIATIONS

	ORIGINAL APPROPRIATION ACT 1989/90	SUPPLEMENTARY APPROPRIATION ACT	INCREASES BY ORDER-IN-COUNCIL	TOTAL BUDGET	EXPENDITURES 1989/90	UNDER EXPENDITURES	EXPENDITURES 1988/89
AGRICULTURE	$22,215,300	$5,709,200	$ -	$27,924,500	$27,524,211	$400,289	$26,934,163
PEI AGRICULTURAL DEVELOPMENT CORP	1,182,400	19,300	182,600	1,384,300	1,384,261	39	1,154,836
PEI GRAIN ELEVATORS CORPORATION	195,200	-	379,000	574,200	574,144	56	168,605
COMMUNITY & CULTURAL AFFAIRS	9,029,800	4,491,550	-	13,521,350	13,153,919	367,431	9,419,932
LAND USE COMMISSION	192,100	185,800	-	377,900	353,705	24,195	360,906
LABOUR	1,836,900	97,000	-	1,933,900	1,909,723	24,177	1,496,320
GENERAL EDUCATION	7,983,900	125,800	46,800	8,156,500	8,155,655	845	7,717,935
ELEMENTARY AND SECONDARY EDUCATION	97,426,000	2,106,000	-	99,532,000	99,531,908	92	92,458,475
POST SECONDARY EDUCATION	33,979,100	-	-	33,979,100	33,910,128	68,972	29,946,020
VOCATIONAL PROGRAMMING	4,068,500	-	-	4,068,500	4,068,500	-	3,971,600
ENVIRONMENT	7,127,100	591,350	-	7,718,450	7,576,566	141,884	7,115,497
TOURISM AND PARKS	9,418,700	-	-	9,418,700	9,239,104	179,596	8,171,026
EXECUTIVE COUNCIL	1,992,200	58,250	-	2,050,450	1,914,605	135,845	1,756,398
FINANCE	8,649,400	359,000	-	9,008,400	8,712,574	295,826	7,439,233

Note: For comparative purposes the 1988/89 expenditures have been restated to reflect departmental restructuring in the 1989/90 fiscal year.

ORDINARY EXPENDITURES
APPROPRIATIONS

	ORIGINAL APPROPRIATION ACT 1989/90	SUPPLEMENTARY APPROPRIATION ACT	INCREASES BY ORDER-IN-COUNCIL	TOTAL BUDGET	EXPENDITURES 1989/90	UNDER EXPENDITURES	EXPENDITURES 1988/89
EMPLOYEE BENEFITS	$ 7,899,300	$ 411,200	$ -	$ 8,310,500	$ 8,310,499	$ 1	$ 10,050,343
PEI LENDING AUTHORITY	1,272,600	-	-	1,272,600	965,267	307,333	1,138,988
INDUSTRY	17,553,700	1,646,900	-	19,200,600	13,164,746	6,035,854	15,915,205
PEI DEVELOPMENT AGENCY	11,423,800	4,418,000	1,565,700	17,407,500	17,407,498	2	16,276,548
HEALTH & SOCIAL SERVICES	93,858,100	667,500	157,000	94,682,600	94,678,042	4,558	87,973,961
ADDICTION SERVICES	3,596,700	-	4,500	3,601,200	3,600,741	459	3,276,803
HOSPITAL AND HEALTH SERVICES COMMISSION	113,275,000	588,000	383,700	114,246,700	114,246,664	36	105,194,388
ENERGY AND FORESTRY	8,801,700	-	-	8,801,700	8,297,819	503,881	9,098,140
PEI ENERGY CORPORATION	1,290,300	-	-	1,290,300	1,274,707	15,593	1,247,203
JUSTICE	18,736,600	-	-	18,736,600	18,088,408	648,192	15,296,311
PEI HOUSING CORPORATION	2,840,400	-	-	2,840,400	2,381,600	458,800	2,130,207
FISHERIES AND AQUACULTURE	2,833,100	-	-	2,833,100	2,453,616	379,484	2,525,880
LEGISLATIVE ASSEMBLY	1,858,400	759,500	298,800	2,916,700	2,916,531	169	1,970,674
TRANSPORTATION & PUBLIC WORKS	46,388,900	4,789,200	-	51,178,100	50,821,322	356,778	46,441,300
PEI CROWN BUILDING CORPORATION	64,000	-	183,100	247,100	247,063	37	1,062,501
DEBT CHARGES	90,638,900	-	-	90,638,900	86,889,252	3,749,648	80,914,643

Note: For comparative purposes the 1988/89 expenditures have been restated to reflect departmental restructuring in the 1989/90 fiscal year.

ORDINARY EXPENDITURES
APPROPRIATIONS

	ORIGINAL APPROPRIATION ACT 1989/90	SUPPLEMENTARY APPROPRIATION ACT	INCREASES BY ORDER-IN-COUNCIL	TOTAL BUDGET	EXPENDITURES 1989/90	UNDER EXPENDITURES	EXPENDITURES 1988/89
AUDITOR GENERAL	$ 943,500	$ -	$ -	$ 943,500	$ 850,182	$ 93,318	$ 832,872
CIVIL SERVICE COMMISSION	1,637,300	-	-	1,637,300	1,441,780	195,520	1,149,155
GENERAL GOVERNMENT	4,245,800	2,346,500	-	6,592,300	5,654,005	938,295	3,177,563
TREASURY BOARD	939,400	-	-	939,400	900,131	39,269	584,944
COUNCIL OF MARITIME PREMIERS	723,600	-	-	723,600	718,600	5,000	723,500
TOTALS	$636,117,700	$29,370,050	$3,201,200	$668,688,950	$653,317,476	$15,371,474	$605,092,075

Note: For comparative purposes the 1988/89 expenditures have been restated to reflect departmental restructuring in the 1989/90 fiscal year.

SCHEDULE "B"
PAGE 1 OF 1

CAPITAL EXPENDITURES
APPROPRIATIONS

	ORIGINAL APPROPRIATION ACT 1989/90	EXPENDITURES 1989/90	UNDER EXPENDITURES	EXPENDITURES 1988/89
TRANSPORTATION & PUBLIC WORKS	$40,037,600	$37,644,698	$2,392,902	$40,917,845
TOURISM AND PARKS	35,000	34,993	7	418,792
TOTALS	$40,072,600	$37,679,691	$2,392,909	$41,336,637

SCHEDULE "C"

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
	DEPARTMENT OF AGRICULTURE		
416/89	P.E.I. MARKETING COUNCIL - GRANTS		$1,500,000
	Tobacco Transition Adjustment Initiative		
	(100% offset by Federal Government)		
514/89	MARKETING AND EXTENSION - HOG STABILIZATION		1,483,300
	Production Efficiency Incentives	$ 500,000	
	Stabilization Fund - Interest	60,000	
	National Tripartite Stabilization - Premiums	589,700	
	Stabilization Fund - Grant	333,600	
	(Revenue offset from P.E.I. Hog Commodity Marketing Board)		
113/90	PRODUCTION SERVICES - LIVESTOCK SERVICES		500,000
	Horse Development Program		
	MARKETING AND EXTENSION - HOG STABILIZATION		1,400,900
	Grants - Loan Guarantee Write-Off	$1,193,000	
	Grants - Hog Stabilization Fund	207,900	
	P.E.I. MARKETING COUNCIL - GRANTS		750,000
	Tobacco Transition Adjustment Initiative		
143/90	PRODUCTION SERVICES		75,000
	Laboratory and Disinfection Services - Equipment		
	(100% offset by Federal Government)		
	TOTAL		**$5,709,200**
	P.E.I. AGRICULTURAL DEVELOPMENT CORPORATION		
114/90	ADMINISTRATION		$ 6,300
	Equipment		
	CROP INSURANCE		13,000
	Professional and Contract Services		
524/90	ADMINISTRATION		182,600
	Professional Services	$ 9,000	
	Debt	173,600	
	TOTAL		**$ 201,900**

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
	P.E.I. GRAIN ELEVATORS CORPORATION		
523/90	DEBT - OPERATING DEFICITS		$379,000
	TOTAL		$ 379,000
	DEPARTMENT OF COMMUNITY AND CULTURAL AFFAIRS		
512/89	DEPARTMENTAL MANAGEMENT		$ 22,900
	Salaries		
	(Offset sequestered from Fisheries and Aquaculture)		
	RURAL DEVELOPMENT DIVISION		339,700
	Administration	$ 500	
	Materials, Supplies and Services	600	
	Salaries	165,800	
	Travel and Training	8,800	
	Grants - Community Advisory Board	64,000	
	Grants - Industry Incentive	100,000	
	(Offset sequestered from Industry)		
	CO-OP ORGANIZATIONS SUPPORT		60,800
	Administration	$ 2,100	
	Materials, Supplies and Services	1,000	
	Professional and Contract Services	7,000	
	Travel and Training	4,000	
	Grants - Industry Incentive	46,700	
	(Offset sequestered from Industry)		
	ACADIAN COMMUNITIES ADVISORY COMMITTEE		12,100
	Salaries	$ 6,400	
	Grants - Industry Incentive	5,700	
	(Offset sequestered from Industry)		
	COMMUNITY ECONOMIC DEVELOPMENT		1,135,300
	Grants - Community Economic Development	$ 135,300	
	Grants - Community Rural Recreation Fund	1,000,000	
	(Offset sequestered from Industry)		

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
512/89	FRENCH SECRETARIAT		$ 196,100
	Administration	$ 5,000	
	Materials, Supplies and Services	4,000	
	Professional and Contract Services	80,000	
	Salaries	92,100	
	Travel and Training	15,000	
	(Offset sequestered from Industry)		
	REGIONAL SERVICES CENTRES		1,016,600
	East Prince		
	Administration	62,700	
	Materials, Supplies and Services	12,100	
	Salaries	130,300	
	Travel and Training	6,600	
	Eastern Kings		
	Administration	66,500	
	Materials, Supplies and Services	13,400	
	Salaries	124,200	
	Travel and Training	8,500	
	Grants - Community Advisory Board	2,000	
	West Prince		
	Administration	96,400	
	Materials, Supplies and Services	16,600	
	Salaries	129,500	
	Travel and Training	7,600	
	Grants - Community Advisory Board	2,900	
	Southern Kings and Queens		
	Administration	64,900	
	Materials, Supplies and Services	10,400	
	Salaries	134,000	
	Travel and Training	4,000	
	Grants - Community Advisory Board	2,000	
	Evangeline		
	Administration	17,300	
	Materials, Supplies and Services	6,500	
	Salaries	87,200	
	Travel	5,800	
	Grants - Community Advisory Board	5,200	
	(Offset sequestered from Industry)		
550/89	CULTURAL AFFAIRS - GRANT		22,500
	Bicultural Awareness - Canadian Confederation		
	(100% offset by Federal Government)		

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
550/89	CONFEDERATION CENTRE BILINGUALIZATION		$ 22,500
	Grant		
	(100% offset by Federal Government)		
	CITY OF CHARLOTTETOWN - FRENCH SERVICES		15,000
	Grant		
	(100% offset by Federal Government)		
	YOUTH FITNESS AND RECREATION BILINGUAL RECREATION DELIVERY		10,150
	Salaries	$ 8,650	
	Travel and Training	1,500	
	(75% offset by Federal Government)		
	FRENCH SECRETARIAT		7,500
	Materials, Supplies and Services	$ 1,500	
	Professional and Contract Services	6,000	
	(75% offset by Federal Government)		
728/89	CULTURAL AFFAIRS		54,000
	Administration - Salaries		
	(Offset sequestered from Industry)		
745/89	YOUTH FITNESS AND RECREATION		12,800
	Acadian Games - Athletic Assistance Program		
	(100% offset by Federal Government)		
27/90	CULTURAL AFFAIRS		1,125,000
	Acadian Heritage Development		
	(One third offset by Federal Government)		
42/90	CULTURAL AFFAIRS		133,000
	Administration		
56/90	COMMUNITY SERVICES - COMMUNITY PLANNING		45,000
	Administration	$ 2,000	
	Materials, Supplies and Services	3,000	
	Grant	40,000	
	CULTURAL AFFAIRS - ADMINISTRATION		60,000
	Equipment		
115/90	CULTURAL AFFAIRS		33,600
	Museum and Heritage Foundation - Salaries		
	(100% offset by Federal Government)		

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
116/90	CULTURAL AFFAIRS		$ 60,000
	French School and Community Centre (100% offset by Federal Government)		
117/90	ADMINISTRATION		17,000
	Equipment		
	CULTURAL AFFAIRS		90,000
	Administration - Grant	$ 60,000	
	Museum and Heritage Foundation Operating Grant	30,000	
	TOTAL		**$4,491,550**
	LAND USE COMMISSION		
661/89	ADMINISTRATION		$ 185,800
	Administration	$ 5,600	
	Professional and Contract Services	45,400	
	Salaries	112,700	
	Travel and Training	22,100	
	Additional Costs of Major Hearings		
	TOTAL		**$ 185,800**
	DEPARTMENT OF LABOUR		
632/89	ADMINISTRATION DIVISION		$ 13,000
	Administration		
77/90	INDUSTRIAL RELATIONS		41,000
	Professional and Contract Services		
	LABOUR RELATIONS BOARD		43,000
	Professional and Contract Services		
	TOTAL		**$ 97,000**

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
	DEPARTMENT OF EDUCATION		
466/89	GENERAL EDUCATION - PROVINCIAL LIBRARY		$ 60,800
	Administration	$ 500	
	Materials, Supplies and Services	31,800	
	Professional and Contract Services	1,500	
	Salaries	27,000	
	(100% offset by Federal Government)		
761/89	GENERAL EDUCATION - EDUCATIONAL SERVICES		65,000
	Special Education	$ 15,000	
	Hearing Impaired Equipment		
	Media Services	50,000	
	Computer Equipment for Labs		
418/90	GENERAL EDUCATION - FINANCIAL SERVICES		
	LEARNING MATERIALS DISTRIBUTION CENTRE		46,800
	Materials, Supplies and Services		
	TOTAL		**$ 172,600**
	DEPARTMENT OF EDUCATION - SCHOOL UNITS		
75/90	ELEMENTARY AND SECONDARY EDUCATION		
	GRANTS TO REGIONAL SCHOOL UNITS		$2,106,000
	Salaries	$ 306,000	
	Operating Costs - School Units	1,800,000	
	TOTAL		**$2,106,000**
	DEPARTMENT OF THE ENVIRONMENT		
417/89	FISH AND WILDLIFE - SHELLFISH PROGRAM		$ 70,000
	Equipment	$ 3,000	
	Materials, Supplies and Services	7,000	
	Salaries	50,000	
	Travel	10,000	
	(100% Offset by Federal Government)		
743/89	WATER RESOURCES - ADMINISTRATION		45,000
	Professional and Contract Services		
	Tignish contaminated groundwater investigation		

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
744/89	EMERGENCY MEASURES ORGANIZATION Joint Emergency Planning Projects - Grant (100% offset by Federal Government)		$ 17,000
748/89	WATER RESOURCES Underground Petroleum Storage Tank - Salaries (100% offset by Federal Government)		10,000
760/89	WASTE MANAGEMENT AND UTILITIES - PROVINCIAL SOLID WASTE MANAGEMENT Equipment		48,000
	WATER RESOURCES - COMMUNITY SERVICES LABORATORY Materials and Supplies		10,000
43/90	EMERGENCY MEASURES ORGANIZATION Joint Emergency Planning Projects		73,950
	JEPP #15 - Provincial Shelter Plan	$ 15,000	
	JEPP #19 - Emergency Generator	22,000	
	JEPP #22 - Emergency Response Vehicle	36,950	
	(100% offset by Federal Government)		
119/90	FISH AND WILDLIFE Wetland Management - Salaries (100% offset by Federal Government)		12,500
120/90	WASTE MANAGEMENT AND UTILITIES - UTILITY OPERATIONS Grant - Industrial Waste Management		278,700
	FISH AND WILDLIFE - UPLAND GAME, WATERFOWL AND FURBEARERS Administration (100% Offset by Federal Government)		26,200
	TOTAL		$ 591,350
	EXECUTIVE COUNCIL		
648/89	PLANNING AND RESEARCH FUND Professional Services		$ 55,000
76/90	PREMIERS OFFICE Equipment		2,750

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
76/90	EXECUTIVE COUNCIL OFFICE Equipment		$ 500
	TOTAL		$ 58,250
	DEPARTMENT OF FINANCE		
762/89	REAL PROPERTY RECORDS - ADMINISTRATION AND OPERATIONS		$ 200,000
	Equipment	$ 157,100	
	Materials, Supplies and Services	42,900	
	COMPUTER SERVICES		159,000
	Administration Professional Services	$ 19,200	
	Operations Equipment	71,000	
	Data Entry Equipment	68,800	
	TOTAL		$ 359,000
	EMPLOYEE BENEFITS		
121/90	ADMINISTRATION Salaries		$ 411,200
	TOTAL		$ 411,200
	DEPARTMENT OF INDUSTRY		
420/89	HUMAN RESOURCE MANAGEMENT Professional Services (100% offset by Federal Government)		$ 124,000
432/89	DEPARTMENTAL MANAGEMENT Charlottetown Area Development Corporation (100% offset by Revenue)		1,379,300

ORDER-IN-COUNCIL	**LIST OF INCREASES TO APPROPRIATIONS**		
513/89	DEPARTMENTAL MANAGEMENT Charlottetown Area Development Corporation (to be offset by sequestration in Community and Cultural Affairs)		$ 143,600
	TOTAL		**$1,646,900**
	P.E.I. DEVELOPMENT AGENCY		
716/89	FINANCIAL ASSISTANCE - PROVISION FOR FUTURE LOSSES		$1,000,000
4/90	FINANCIAL ASSISTANCE - INTEREST EXPENSE		140,000
118/90	FINANCIAL ASSISTANCE - PROVISION FOR FUTURE LOSSES		1,278,000
	INDUSTRIAL WASTE TREATMENT - GRANT		2,000,000
522/90	FINANCIAL ASSISTANCE - PROVISION FOR FUTURE LOSSES		1,565,700
	TOTAL		**$5,983,700**
	DEPARTMENT OF HEALTH AND SOCIAL SERVICES		
418/89	MENTAL HEALTH DIVISION - CHILD SEXUAL ABUSE PROJECT		$ 20,000
	Professional Services	$ 19,400	
	Administration	600	
	(100% offset by Federal Government)		
419/89	SPECIAL SERVICES - INFANT DAYCARE REVIEW PROJECT		17,500
	Materials, Supplies and Services	$ 1,000	
	Salaries	16,500	
	(100% offset by Federal Government)		
467/89	JOB CREATION AND PLACEMENT - EMPLOYMENT ENHANCEMENT DIVERSION FUND		140,000
	Salaries	$ 70,000	
	Professional and Contract Services	70,000	
	(100% offset by Federal Government)		

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
649/89	DEPARTMENTAL MANAGEMENT - MANAGEMENT SERVICES Professional and Contract Services (100% offset by Federal Government)		$ 30,000
123/90	DEPARTMENTAL MANAGEMENT DIVISION		56,000
	Minister and Deputy Minister's Office Equipment	$ 27,500	
	Management Services Equipment	28,500	
	SPECIAL SERVICES Division Management - Equipment		6,000
	CHILD AND FAMILY SERVICES Division Management - Equipment		1,200
	AGING AND EXTENDED CARE DIVISION		396,800
	Division Management Equipment	$ 71,600	
	Maplewood Manor - Alberton Salaries	91,400	
	Wedgewood Manor - Summerside Salaries	61,200	
	Summerset Manor - Summerside Salaries	48,900	
	Riverview Manor - Montague Salaries	37,800	
	Hillsborough Hospital/Riverside Home Salaries	85,900	
403/90	AGING AND EXTENDED CARE DIVISION		157,000
	Wedgewood Manor - Summerside Salaries	$ 2,400	
	Colville Manor - Souris Salaries	34,000	
	Riverview Manor - Montague Salaries	17,900	

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
403/90	Prince Edward Home - Charlottetown Salaries	$ 58,500	
	Special Care Unit - Charlottetown Salaries	44,200	
	TOTAL		$ 824,500
	HOSPITAL AND HEALTH SERVICES COMMISSION		
124/90	HOSPITAL SERVICES Grants - Hospital Equipment		$ 588,000
520/90	HOSPITAL SERVICES Grant - Operating Deficit		383,700
	TOTAL		$ 971,700
	ADDITION SERVICES		
390/90	QUEEN COUNTY Rehabilitation - Salaries		$ 4,500
	TOTAL		$ 4,500
	LEGISLATIVE ASSEMBLY		
549/89	LEGISLATIVE SERVICES		$ 18,500
	Administration	$ 3,700	
	Materials, Supplies and Services	2,800	
	Professional and Contract Services	400	
	Salaries	7,300	
	Travel and Training	4,300	
	MEMBERS		101,000
	Administration	$ 2,200	
	Equipment	18,000	
	Salaries	43,000	
	Travel and Training	37,800	
	ELECTIONS Professional and Contract Services		550,000

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
549/89	ELECTION SERVICES		$ 90,000
	Professional and Contract Services		
354/90	LEGISLATIVE SERVICES		7,800
	Administration	$ 4,000	
	Materials, Supplies and Services	3,800	
	MEMBERS		291,000
	Salaries		
	Pay adjustment for M.L.A.'s following the Thompson/O'Brien Report.		
	TOTAL		$1,058,300
	DEPARTMENT OF TRANSPORTATION AND PUBLIC WORKS		
28/90	HIGHWAYS MAINTENANCE BRANCH		$ 15,000
	Maintenance Administration		
	Equipment		
	MECHANICAL BRANCH - GARAGE OPERATIONS		118,000
	Charlottetown Garage, Indirect		
	Equipment	$ 115,000	
	Indirect, Summerside		
	Equipment	3,000	
	TRAFFIC		40,500
	Equipment	$ 22,500	
	Materials, Supplies and Services	18,000	
	SERVICES BRANCH - AUDIO VISUAL CENTRE		12,000
	Equipment		
	SERVICES BRANCH - PRINTING SERVICES		16,000
	Equipment		
78/90	SERVICES BRANCH - POSTAL SERVICES		117,600
	Administration	$ 101,000	
	Materials, Supplies and Services	5,600	
	Professional Services	11,000	

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
78/90	SERVICES BRANCH - PRINTING SERVICES		$ 100,000
	Materials, Supplies and Services		
125/90	GENERAL ADMINISTRATION		16,400
	Administration		
	HIGHWAY MAINTENANCE BRANCH		3,274,700
	Maintenance Administration		
	Administration	$ 5,000	
	Salaries	45,500	
	Travel	61,500	
	Pavement Maintenance		
	Grant - Summerside	500,000	
	Grant - Charlottetown	1,000,000	
	Snow Control		
	Materials, Supplies and Services	278,400	
	Professional Services	547,000	
	Salaries	190,000	
	Sanding and Salting		
	Materials, Supplies and Services	647,300	
	MECHANICAL BRANCH - GARAGE OPERATIONS		865,900
	Charlottetown Garage, Direct		
	Materials, Supplies and Services	$ 357,700	
	Travel	11,200	
	Charlottetown Garage, Indirect		
	Administration	31,900	
	Materials, Supplies and Services	114,300	
	Travel	13,100	
	Summerside Garage, Direct		
	Materials, Supplies and Services	114,200	
	Travel	3,000	
	Summerside Garage, Indirect		
	Administration	27,000	
	Travel	1,200	
	Operators, Prince County	59,100	
	Salaries		
	Operators, Queens County	78,800	
	Salaries		
	Operators, Kings County	54,400	
	Salaries		

ORDER-IN-COUNCIL	**LIST OF INCREASES TO APPROPRIATIONS**		
125/90	BUILDINGS BRANCH		$ 83,100
	Direct Buildings Maintenance - Shaw, Jones and Sullivan Buildings	$ 35,000	
	Materials, Supplies and Services		
	Direct Buildings Maintenance - Other Buildings	48,100	
	Summerside Youth Centre - Administration		
	TRANSPORTATION BRANCH - ADMINISTRATION		130,000
	Professional and Contract Services		
	TOTAL		**$4,789,200**
	P.E.I. CROWN BUILDINGS CORPORATION		
521/90	ATLANTIC VETERINARY COLLEGE PROJECT		$ 183,100
	Charlottetown Veterinary College - Debt		
	TOTAL		**$ 183,100**
	GENERAL GOVERNMENT		
465/89	ROYAL COMMISSION ON THE LAND		$ 145,000
	Administration - Grant		
746/89	ROYAL VISIT		164,000
	Administration	$ 159,800	
	Salaries	1,600	
	Travel	2,600	
747/89	ROYAL COMMISSION ON THE LAND		37,500
	Administration - Grant		
122/90	GRANTS - MISCELLANEOUS GRANTS		2,000,000
	Montague Pool Facility		
	TOTAL		**$2,346,500**